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# Cities Matter:

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Local Economic Development

## **Trainer's Guide**

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## Overview

The “Cities Matter: Local Economic Development” Trainer’s Guide is based on a course that took place in Budapest, Hungary, November 1–5, 1999. This course was directed by the International City/County Management Association and the U.S. Agency for International Development for 35 participants, primarily USAID project officers and their counterparts in Europe and Eurasia (E&E).

This trainer’s guide is based on the goals and objectives that were established for that training course. The materials provided in this guide are meant to serve as the foundation for future courses. Future audiences may include USAID Mission staff and agencies working with them within a country or local government staff and others involved in economic development in one community or region. Presentations and activities will need to be adjusted to accommodate differences in goals, objectives, and parameters of specific training courses.

The “Cities Matter: Local Economic Development” course was conducted for people from several countries in the E&E region. As a result, the training was designed to accommodate differences among countries. The generic course materials provided here should be adapted and made specific to the country of participants. Where appropriate, trainers<sup>1</sup> should present relevant economic data, describe legislation or policies that may affect economic development activities, and use case studies or examples from the country in which the course is conducted.

It is recommended that anyone using the trainer’s guide to plan or conduct a course read all course materials completely. The guide follows the course over five days; each day is divided into a morning and an afternoon session. (A compressed schedule adapted for a three-day course is also provided at the end of this section.) Session materials include:

- An overview, describing the purpose of the session
- Session objectives, which outline the main objectives
- Trainer’s notes, giving step-by-step instructions about how the session might be presented
- Talking points, which give a brief overview of the presentation, to be expanded upon by the trainer
- Overheads, which the trainer should adapt or expand upon to accommodate the specific presentation to be made

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<sup>1</sup> “Trainer” is used in this guide as a generic term for many types of training-related roles, including presenter, facilitator, and course designer. This guide uses the term “trainer” except when referring to a specialized role.

- ✦ Handouts (if applicable) to be photocopied and distributed; most give small groups instructions for an interactive activity.
- ✦ All of these materials are meant as guidelines only and should be adapted to accommodate different course objectives or the needs of the group.

## **The Course Approach**

The original “Cities Matter: Local Economic Development” course was designed as a five-day course, with an optional pre-course session designed to familiarize participants with the economic development terminology that would be used during the course.

As with any training course, there is a need to balance the desire to invite all interested parties with the need to limit the group size for optimal learning. Because adults learn best when they are actively engaged, the structure and approach of this course is highly participatory, making extensive use of small-group discussions and interaction. Thus, it is recommended that the group be limited to a maximum of 35 participants.

In addition, the original course required participants to complete a pre-course homework assignment. Participants were asked to gather information about authority and responsibility of local governments in the areas of fiscal autonomy, land use control and land ownership, infrastructure finance, municipal service provision, current employment labor conditions, and national laws related to tariffs and movement of goods and services. Requiring such pre-course work ensures that participants arrive at the first session with the background information they need to apply the content learned to the situation in their own countries.

## **Selecting Presenters and Facilitators**

The trainer’s notes, talking points, and overheads contained in this guide are designed to help presenters incorporate key learning ideas into their presentations. Trainer’s notes are also designed to help presenters consider how to make their presentations lively and to engage the audience, but all presenters and facilitators should be familiar with and experienced in interactive learning techniques.

There are a number of things to consider when selecting presenters for a training course in local economic development. In addition to content knowledge, presenters should have good presentation skills, including the ability to connect with the audience, to “read” the audience’s reactions, and to alter the presentation accordingly.

When considering presenters, look for balance among experts in theory (such as professors) and practitioners who are able to share real-life experiences. All pre-

presenters should be contacted well in advance of the course and given guidelines for session objectives, topics to be covered in the presentation, preparation of overheads or handouts, and key questions for discussion. If presenters plan to stay for the duration of the training course, encourage them to serve as resources for the group without distracting from presentations as they are taking place.

In addition to presenters, there should be at least one facilitator who is responsible for overseeing the progress of the training course. It is the facilitator's role to ensure that sessions run according to the course schedule. The facilitator may also step in to clarify key concepts, ask key questions, summarize sessions and/or connect one presentation to another, handle question-and-answer sessions, and encourage the group to move forward if it gets stuck. Good facilitators have excellent communication skills and knowledge of group dynamics.

## **Training Tips**

It is important to tailor course materials to the knowledge and experience of participants. Data, examples, and anecdotes should be relevant to the audience.

In addition, the course should take into account the needs of adult learners. Take the following steps:

- Provide a comfortable learning environment.
- Discuss expectations at the outset of the training course and each session.
- Focus on practical skills and real-life examples.
- Provide ample opportunities for adults to integrate new ideas and concepts into their existing knowledge.
- Use interactive learning strategies. Long lectures can detract from learning.
- Accommodate different learning styles by using overheads, engaging participants in the discussion, recording their comments on flip charts, etc.

## **Learning Approaches**

Because adults learn best when there are opportunities to participate in discussions and apply what they are learning to their own experiences, the “Cities Matter: Local Economic Development” course is designed to be highly interactive. Most sessions include a presentation followed by an interactive learning task that requires small groups of participants to apply the session content to their own countries or situations.

The training includes a variety of learning approaches, including the following:

**Presentations.** Presentations provide the content of the topics studied. They should go beyond a lecture, however, by engaging the audience and connecting the subject matter to the situations or experiences of the participants. (The trainer's notes offer suggested brainstorming activities or discussion questions to help accomplish this.) When planning presentations, trainers should look for other opportunities to help participants tie what they are learning into their real-world responsibilities. Presentations should also include overheads and examples to keep the participants engaged in the discussion.

**Small-group exercises.** The exercises are designed to facilitate the involvement of all participants as they apply the concepts learned to their own situation. The small-group exercises ask participants to complete a specific task and then to share their findings with the larger group.

Small groups typically work best when there are no more than six participants in each group. In the original course, participants were divided into groups with others from their country or region. When adapting the course, trainers should consider carefully what mix of individuals will work best for achieving their objectives. In some cases, it may be best to assign groups according to a common characteristic; for example, assigning all participants from the nonprofit sector in one group and those from the local government in another; breaking into groups so that people from the same community work together; or encouraging people with similar interests to join together. In other situations, it may be best to have diverse points of view in any given group. You may also want to consider allowing different participants to work together in different exercises; this encourages new relationships to be forged and ideas to be shared among participants.

It is important to provide clear instructions at the outset of the exercise about what the group is to accomplish. This is best achieved by providing a handout with instructions, reviewing the instructions verbally, and asking if there are any questions before the groups begin their work. Provide specific time limits and remind groups when they have only five (or ten) minutes to complete their task. In addition, ask groups to select a spokesperson who will be responsible for reporting on the group's discussion.

After small-group exercises, give each group time to report. Encourage groups to be brief. Respond following each group's presentation, asking questions for clarification or tying their discussion into past presentations. You may also ask others in the group to ask questions or add to what is mentioned.

After all groups have had a chance to report on their discussion, it is critical to summarize key ideas, focusing on what participants should take away from the presentation and/or exercise. Usually this is best done by asking the group what they learned from the discussion and/or how they will apply what they have learned. Where appropriate, answers may be posted on a flip chart. The trainer's

notes are designed to help presenters make sure that key points are reinforced at the close of each presentation.

**Field practicum.** The fourth day of the original five-day training course was dedicated to a field practicum. However, a field practicum will not be included in training intended for a specific economic development program, since there is presumably no example to show. Three site visits were arranged to allow participants to examine the roles of the private sector, local government, and community groups. This session was scheduled for the fourth day of the course to ensure that the information gained could be incorporated into the overall learning experience of the course.

The sites visited should include places that have initiated a new process or program with visible and demonstrated results. Course designers should select communities that have taken considerable initiative on their own to improve their local economic condition, avoiding communities that initiated their program or project only as a result of funding from international donors. A second selection criterion is the degree to which there is true cooperation among the local government, private industry, and NGOs or other institutions. Look for local governments that have service delivery contracts with private or nongovernmental organizations, forums for ongoing communication between the private industry leaders and local government officials, the participation of all three sectors in the development of a strategy, and active involvement in regional economic development activities.

The mayor—or his or her office or designee—may serve as the main coordinator for the field practicum. This person should serve as a go-between for the course facilitator and the local community groups and make the arrangements. The objectives of the course and those of the field practicum as it relates to the course should be clearly presented to the mayor. A pre-visit to the community is advised so that questions can be answered and logistical arrangements can be made on site.

Do **not** try to convince an organization or community to participate. It is better to have a less advanced program described by people who want to tell the story than by a good program described by people who feel you are intruding. Leaders and staff who are knowledgeable about the process by which a new program was actually implemented, rather than people who can only describe the outcome, should present the program to the course participants.

**Case studies.** The “Cities Matter: Local Economic Development” course engaged speakers who had intimate knowledge of economic development activities in the E&E region to share their experiences. Because case studies were specific for this course, they have not been included in the trainer’s guide materials.

The purpose of case studies is to connect theory to practice. Case studies can be included as part of a presentation or as background materials. Good case studies

are relevant to the content of the presentation and to the specific parameters in which the participants work. Case studies should be changed each time the course is delivered to ensure that they are both relevant and up-to-date. Choose case studies very carefully and do not include them if they are not relevant to a specific point being made in the course.

Finally, when using the case studies, make sure that the linkage between the session objectives and the case study is clearly made. Don't assume that participants can make the linkage by simply hearing the presentation.

Use the outline below to assist in preparing case studies of economic development activities.

## **I. Executive Summary**

- A. Brief statement of the problem
- B. Typical or historic response to such conditions
- C. New or different approach/practice used

## **II. Community Background and Conditions**

- A. Situation: Problem and/or issues that generated action
  - i. Economic conditions of community
  - ii. Institutions or people most affected by the conditions
- B. Events that describe why community leadership took action
  - i. Personality/attitude of the leaders, organizations, institutions
  - ii. Political environment
  - iii. Civil society's awareness of the problem, issues, or proposed action
- C. External factors that affected the actions taken
  - i. Intergovernmental relations
  - ii. International conditions
  - iii. Legislation and legal environment

## **III. Actions Taken To Resolve the Problem**

- A. Description of the innovation: project or process that resulted from the actions taken by the community, including a description of institutions (government, nongovernmental organizations [NGOs], private businesses)
  - i. History
  - ii. Autonomy and capacity to exercise authority
  - iii. Readiness to respond/participate in the action proposed
- B. Resources required to achieve the innovation or action, including capital, people, land, information, skills, time, money, etc.
- C. Outcome: What is different today from before you started



#### IV. Lessons Learned and Conclusions

- A. Key factors that led to success
- B. Problems or difficulties, particularly those that were unanticipated
- C. Factors unique to the community

**Reflections.** At the end of each day, time is set aside for participants to reflect on the day's activities. During this time, you should encourage participants to make notes to themselves on concepts they would like clarified, key points that will assist them in their work, or concepts that they will ultimately incorporate into their strategic plan. This is a very informal session, lasting approximately one-half hour. Participants can leave at any time, once they feel they are ready to bring closure to the day.

#### Conducting Sessions

Training sessions need to be properly introduced, conducted, and processed. For learning to take place, trainers must effectively introduce the goals and objectives for each session, ask effective questions and guide group discussion, and provide closure at the end of each session. Trainers should take the following steps:

**Prepare carefully.** Prior to each session, review the reading assignment and the lesson outline, content, and activities. Try to anticipate questions and difficulties that participants are likely to have and review any areas that you are uncertain about. Plan carefully, but be flexible so that you can alter your plan to accommodate the needs of the group. Gather the materials and equipment you will need to conduct the lesson. A preparation checklist can help you make sure that you are ready.

**Review objectives.** In most cases, the session should begin with an overview of the session objectives and activities. Explain what you expect participants to learn from each activity and how the objectives fit into course goals (discussed later in this section). You can then solicit participation by asking group members about their experiences with the topic at hand.

**Give clear directions.** It is important to explain what is expected of participants for each activity. They need to know what they are to do, how they are to do it, and how much time they will be given. When breaking into small groups, allow time for participants to rearrange themselves and the furniture so that you have their full attention before giving directions. If you are working with printed materials, either read them together or allow participants sufficient time to read them on their own. Before beginning an activity, ask whether there are any questions. Remain available to clarify directions throughout the sessions.

**Facilitate learning.** As facilitator, your responsibilities include guiding the group process by keeping things moving, including all group members in the learning process, providing feedback, keeping participants directed toward the designated

goal, and helping the group sum up each session. When conducting group activities, role plays, or simulations, don't be tempted to join as a participant. Maintaining your role as facilitator allows you to roam around the room to observe how participants are doing, refocus them on the task at hand, or offer suggestions. In some cases, particularly if the activity focuses on an aspect of communication or group dynamics, it may be useful for you to take notes about how the group is working to share with participants during the debriefing.

**Process information.** No matter how good the quality of the presentation or activity, it will be useless without processing the activity and the information learned in conducting it. Make sure you allow ample time for discussion after each activity. Use the flip chart to help record ideas and feedback. Remember, it is your responsibility to make sure participants relate the activity to the session objectives and to their own experiences and situations.

**Provide closure.** As you review key points, relate the learning back to the objectives you set. It is often helpful to ask for questions at the end of the session to make sure that there are no loose ends. Be prepared to suggest additional resources for those who would like to explore a topic in more depth.

Look for ways to encourage participants to convert what they have learned into action. Participants will benefit most if they jot down notes immediately after trying out a new skill or behavior. Use discussion questions and learning activities to inspire participants to reflect on their own situation, assess their strengths and weaknesses, and apply what they have learned. Reinforce skills by encouraging participants to try them out in real-life situations.

You can also encourage participants to use new skills by ending the class with questions such as:

- ◀ What is the first thing you'll do when you get back to the office to apply what you have learned here?
- ◀ What problems, if any, do you anticipate in applying on the job the skills you have learned?

**Be enthusiastic!** The trainer is a salesperson of ideas and a role model for the rest of the class members. Enthusiasm fosters a positive learning environment. Your positive (or negative) attitude may quickly become the prevailing mood of the group.

## Goals and Objectives

Planning always begins with where you want to end up. Course goals and objectives should be based on the general need that prompted the training session in the first place. But they should go beyond this providing specific insight into desired outcomes. Consider the following questions:

- Why are we having the course or session? What do we hope to accomplish?
- What do we want participants to know when they leave the session?
- What do we want participants to do with the information they have learned?

**Course Goals.** The purpose of the “Cities Matter: Local Economic Development” course is to demonstrate how to develop an enabling environment that will permit local government, business, and nongovernmental entities to build long-term, sustainable economic development and growth.

**Course Objectives.** Participants will be able to:

- Describe elements of the legal, intergovernmental, political, and administrative framework that facilitate economic development and growth.
- Develop a governing framework from which to analyze relationships between private enterprise and local government that allows for formation of appropriate intervention policies.
- Identify actions municipal government should take that will encourage both private business investment and public and private capital for public infrastructure improvements.
- Describe how to analyze the value of community assets and financial incentive programs, and target them to gain maximum benefit for the community overall.
- Establish the fundamental elements of a comprehensive local government economic development program for their respective countries.

In addition to these overall goals and objectives, each session has specific learning objectives. These are presented at the beginning of each session’s materials. Trainers should review these objectives carefully, revise them according to the needs of the audience and course, and ensure that the session adequately addresses the new objectives.

## **Sessions**

For the purposes of this trainer’s guide, the course is divided into 10 sessions. The sessions are numbered so that they are more easily moved to another day or adapted for a shorter training course. The sessions provided in this trainer’s guide are as follows:

- Session 1: The Principles and Practice of Economic Development (Day 1 morning)
- Session 2: The Role of Local Government in the Global Economy (Day 1 afternoon)
- Session 3: Attracting Private Investment (Day 2 morning)
- Session 4: Revenue Raising and Municipal Credit for Infrastructure Investment (Day 2 afternoon)
- Session 5: Maximizing the Value of Local Government Assets and Incentive Programs (Day 3 morning)
- Session 6: Developing the Local Labor Force (Day 3 afternoon)
- Session 7: Field Practicum: Local Government Sector, Private Sector, NGO Sector (Day 4 all day)
- Session 8: Economic Development Policy and Organizations (Day 5 morning)
- Session 9: Building an Economic Development Strategy (Day 5 afternoon)

Each session includes an overview and objectives. Before conducting the session, read these carefully and adapt them according to the needs of your audience and the goals of your course. In some cases, you may need to adjust the materials to accommodate a specialty within the group or to incorporate information that is not covered.

Like the objectives, the trainer's notes are also meant to be a guide, not a prescription of how the session should be presented. In particular, the timing may vary considerably from one group to another—depending not only on the expertise of the group, but also on the nature of the group discussion, the number and quality of the examples that are incorporated into the discussion, and other characteristics of the presenter. All presenters should consider the talking points and overheads as just the skeleton of the presentation, however, adding examples that are relevant to the country in which the training is held and the audience that is present. It is strongly recommended that presenters practice their presentations ahead of time and make adjustments to the recommended timing according to their specific presentations rather than attempting to fit their presentation into the timing provided in this manual.

## **Sample Five-Day Course Schedule**

The following schedule assumes a five-day training course with similar goals and objectives to the initial course. The schedule should be adapted to meet new goals or time frames.

### **Day 1: E&E's Emphasis on Local Economic Development**

**8:30** Welcome and Opening Remarks  
Course Objectives  
The Principles and Practice of Economic Development

**10:30** Group Assignment: Developing the Framework for Local Economic Development

LUNCH

**1:00** The Role of Local Government in the Global Economy  
Case Studies

**5:00** Reflections and Adjournment

### **Day 2: Strengthening the Investment Environment Through Administrative Practices**

**8:30** Welcome and Overview  
Attracting Private Investment

**10:30** Group Assignment: Identifying the Barriers to an Investment Environment

LUNCH

**1:00** Revenue Raising and Municipal Credit for Infrastructure Investment

**2:30** Group Assignment: Evaluating Revenue-Generating Options

**5:00** Reflections and Adjournment

### **Day 3: Enhancing Resources for Economic Development**

**8:30** Welcome and Overview  
Maximizing the Value of Local Government Assets and  
Incentive Programs

**10:30** Group Assignment: Applying the Principles: Local Government Assets and Incentive Programs

LUNCH

**1:00** Developing the Local Labor Force  
Case Study: Creating a Local Labor Force Enhancement Program

**3:00** Group Assignment: Developing the Framework for a Labor Force Analytical Tool

**5:00** Reflections and Adjournment

#### **Day 4: Field Practicum**

**9:00** Welcome and Overview  
PANEL DISCUSSIONS:  
Panel 1: Local Government Sector  
Panel 2: Private Sector  
Panel 3: NGO Sector

LUNCH

**1:00** SITE VISITS

**4:00** Small-Group Discussions

**5:00** Reflections and Adjournment

#### **Day 5: Organizational Structures for Effective Local Economic Development**

**8:30** Welcome and Overview  
Economic Development Policy and Organizations

LUNCH

**1:00** Group Assignment: Building an Economic Development Strategy

**4:00** Course Evaluation and Closing

## **Sample Three-Day Course Schedule**

Because officials and managers often cannot get away from the office for five full days, trainers may need to consider offering a shorter course. The following suggested agenda for a three-day course may be well suited for most local economic development audiences. This agenda follows the five-day schedule until the afternoon of Day 3, when the session on national and local policy is replaced with the session on developing a strategy. Trainers may want to consider other ways to provide course participants with information about the sessions omitted from the five-day course, perhaps as background readings, for example.

### **Day 1: E&E's Emphasis on Local Economic Development**

**8:30** Welcome and Opening Remarks  
Course Objectives  
The Principles and Practice of Economic Development

**10:30** Group Assignment: Developing the Framework for Local Economic Development

LUNCH

**1:00** The Role of Local Government in the Global Economy  
Case Studies

**5:00** Reflections and Adjournment

### **Day 2: Strengthening the Investment Environment Through Administrative Practices**

**8:30** Welcome and Overview  
Attracting Private Investment

**10:30** Group Assignment: Identifying the Barriers to an Investment Environment

LUNCH

**1:00** Revenue Raising and Municipal Credit for Infrastructure Investment

**2:30** Group Assignment: Evaluating Revenue-Generating Options

**5:00** Reflections and Adjournment

### **Day 3: Enhancing Resources for Economic Development**

**8:30** Welcome and Overview  
Maximizing the Value of Local Government Assets and  
Incentive Programs

**10:30** Group Assignment: Applying the Principles: Local Government Assets  
and Incentive Programs

LUNCH

**1:00** Group Assignment: Building an Economic Development Strategy

**4:00** Course Evaluation and Closing

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## **Session 1 (Day 1 Morning)**

### **The Principles and Practice of Economic Development**

#### **Session Overview**

Creating a physical and administrative environment that is attractive to business is one of the most important responsibilities of local government. Both the regulatory process and the delivery of public services contribute to this objective, and each is a cost to business. In a decentralized governing system, local governments have more rights and responsibilities in establishing policy on such concerns as protection of the environment, building codes, physical appearance, use of land, and so forth. There are many points of view one can use to assess the economic conditions of a country. Likewise, there is more than one governing approach that can be used to determine how conditions can be changed.

This session kicks off the economic development course by providing a review of the course goals and objectives, and introducing participants to the trainers, to one another, and to course materials. The welcome activities also introduce participants to economic development terminology, as it will be used in the course. A presentation then discusses the regulatory environment and other aspects of a local government's responsibilities that have an impact on a business's location decisions, looking at the regulatory environment from the perspectives of the private investor and the public sector. Finally, the session observes the intersection between the development of small and medium-sized enterprises (SMEs) and local economic development programs and considers the impact of national legislation, macroeconomic policy, and other external factors.



## **Session Objectives**

- To present the goals and objectives of the course.
- To provide a brief overview of the five principles of local economic development and the role of local government.
- To examine the conditions that affect local economic development.
- To identify critical stages of development necessary to stimulate the investment environment for SMEs and explore how local governments contribute to development of SMEs vis-à-vis the overall governing structure of a country.
- To identify factors that affect business start-ups, expansion, and the long-term profitability of a firm and to consider which factors local governments can change, as well as those they cannot.
- To explore the impact of community-level legislative and administrative problems on general development issues and review how local governments can overcome obstacles to private investment, either directly or indirectly.
- To consider what additional resources would be needed to address obstacles to local economic development.



## Trainer's Notes

### **1½ hours    Welcome and Introductions**

*This part of the session consists of basic welcome and icebreaker activities and introduces the topic by defining economic development terminology. As an alternative, the terminology segment of the session can be an optional pre-course activity. Trainers may also choose to develop a list of terms with definitions and hand it out to the participants.*

- |               |   |
|---------------|---|
| <i>10 min</i> | 1. Begin by welcoming the group. Introduce yourself and all other trainers who are present. Review the course agenda, course materials, and procedures. Discuss also any issues related to accommodations, meals, and breaks. Then, review goals and objectives. Explain what you expect participants to learn, using the course goals and objectives above. (You should revise these to accommodate your group.)   |
| <i>20 min</i> | 2. Give participants an opportunity to introduce themselves, stating their name, organization, and community (if applicable). If the group is small, an icebreaker may be used for introductions. You may also consider having participants talk briefly about what they expect from the course at this time.   |
| <i>10 min</i> | 3. Turn your attention to the topic—economic development. Begin to focus by asking participants to write down a definition of economic development. Then, ask for volunteers to share their definition of economic development and use responses to generate a discussion of the issue, posing such questions as: “What does economic development mean to your community?”  |
| <i>50 min</i> | 4. Explain that discussions of economic development are often made more difficult by a difference in the ways that various terms are used. Distribute the handout, “Local Economic Development Terms and Definitions.” Review each term on the handout, revising the definition where needed to accommodate the meaning within the country in which the training is held.<br><br>5. Conclude by reminding participants that they should ask questions whenever a term or concept is unfamiliar. Far more learning will occur if participants raise questions as they occur and clarify concepts as they go along. |

## **45 min      Presentation: Local Economic Development Strategies**

*This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

- 5 min*      1. Begin this presentation by asking participants to think about the foremost purpose of economic development. Lead a discussion until the group touches on the answer “to generate wealth.” Make the linkage between generating wealth and community quality of life, using the first overhead for this presentation.
- 10 min*      2. Continue with the presentation, focusing on the basic principles of local economic development. Use the “Cities Matter” talking points and the overheads to discuss the basic principles of local economic development.
- 25 min*      3. Next, turn attention to the SME strategies, again using the talking points and overheads to discuss the lessons that have been learned and their impact on future strategies. Following the overheads, discuss the stages of enterprise development and the steps that can be taken to build a strategy that will create an enabling environment for economic development. Distribute the handout, “Adapting Program Strategies.”
- 5 min*      4. Conclude with a summary of the discussion, asking questions of participants to elicit key concepts and help relate them to the participants’ own situations. Main points to be reiterated include the following:
- There is a correlation between economic output and the efficiency with which local services are provided.
- While governments in post-Soviet countries no longer control economic output, local governments (like national governments) have an important role to play in establishing a profitable investment environment.
- Cities are markets in their own rights; as such, economic development strategies should include assisting businesses within a community to capture each other’s consumption demands. This is particularly important for the development of SMEs.

## **1½ hours      Group Assignment: Developing the Framework for Local Economic Development**

*In this activity, participants develop an assessment tool they can use throughout the course.*

1. Break into small groups of five or six participants each. If there are various communities represented, break so that the participants from each community are working together.

- 10 min
2. Explain that the groups are to work together to create an assessment tool and a framework that will enable them to assess the conditions in the country or in their respective communities as they relate to economic development. Small groups are asked to consider how the critical issues that have been presented compare to conditions in their own country and/or local government. Consideration should be given to legislative, regulatory, economic, and labor conditions. Distribute the handout, “Overcoming Constraints,” and allow participants a few minutes to review the instructions. Ask if there are any questions before beginning. Tell groups that they will have 30 minutes to list constraints to economic development and to identify the four that they believe to be most critical.
- 30 min
3. Allow groups 30 minutes to complete their work. Remind them when there are five minutes left.
- 30 min
4. Reconvene the group and ask a spokesperson from each small group to *briefly* report on its discussion. After each report, point to similarities and differences in the issues that have been raised.
- 20 min
5. When all groups have made their presentations, distribute the handout, “Economic Development Framework,” and the “Application Worksheet.” Explain the purpose of the worksheet and how it can be used to address the constraints on and obstacles to economic development. Tell participants that the training course will close with a session that gives participants time to begin developing their economic development strategies and that this worksheet will assist them to complete the task. Participants should be encouraged to take time during Reflections to make notes on the worksheet.



## Talking Points: Cities Matter

While the purpose of pursuing economic development programs is to generate wealth, the local government should not be the primary investor. According to Michael Porter, author of *The Competitive Advantage of Nations*, the role of government is to enhance what exists, not create something that does not exist.<sup>2</sup> Thus, government plays a critical role in establishing an investment-friendly environment—one in which private investors can expect a reasonable return on their investment and citizens can garner a better quality of life through improved employment opportunities. To create this environment, local government officials focus on physical resources, labor, and financial resources. Their goal is to improve the productive use of space, the productivity of labor, and effective use of financial resources, ultimately creating a more inviting investment climate. In many ways, local economic development is a hybrid field that relies on the principles of economics, finance, planning, public administration, local government management, and spatial geography to achieve the ultimate goal of increased wealth for the community.

Cities matter in very real ways. Cities, not nations, are the engines of economic growth. Cities are the concrete representation of people's values and lives. They house the physical evidence of outcomes of international, national, regional, and local government policies. They are "centers of investment."

### Principles of Economic Development

This course explores actions that government, business, and community groups can take to ensure that investment flourishes. The course contents are derived from the following five principles of local economic development:

1. Firms, not local or national governments, create wealth.
2. Local economic development programs should be executed in partnership with national and regional policies and programs.
3. Efficient and effective public institutions reduce the cost of production for the private sector.
4. The physical environment (infrastructure) contributes to a community's competitive advantage.
5. Access to employment opportunities improves the overall wealth of a community.

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<sup>2</sup> Porter, Michael (1990). *The Competitive Advantage of Nations*, Free Press: New York.

Economic development is dependent on what a community does. Components that can help enhance economic development opportunities include establishing effective national and local institutional relations, creating an attractive (profitable) investment environment, and capitalizing on community resources.

## **Lessons Learned**

The following lessons learned (as reported in “Partnerships for Sustainable Enterprise Growth: 21<sup>st</sup> Century Vision for USAID and Its Partners in Eastern Europe and the New Independent States,” a paper prepared for USAID, July 1999) can provide insight into the factors that contribute to successful economic development programs and strategies:

The single biggest impediment to sustainable growth is the lack of progress in economic and commercial reforms that create a competitive marketplace for enterprises of all sizes. Many governments have stalled in passing new legislation, and when legislation is passed, they often have limited capacity to implement and enforce a regulatory regime that allows markets to operate properly.

Enterprises need a stronger collective voice to promote legal and regulatory changes that help create a market economy. Local trade and professional associations, other local nonprofit organizations that seek to promote good governance and a civil society, policy analysts, and researchers are all viable partners in this regard.

Enterprises need continued opportunities to learn and strengthen modern management techniques.

The main impediment to enterprises having access to capital they need to grow their business is the lack of an investor-friendly climate that could be gained by implementing economic reforms.

In most E&E countries, people are still unclear about what is a market economy, what is the role of private enterprises, and why economic reform is important.

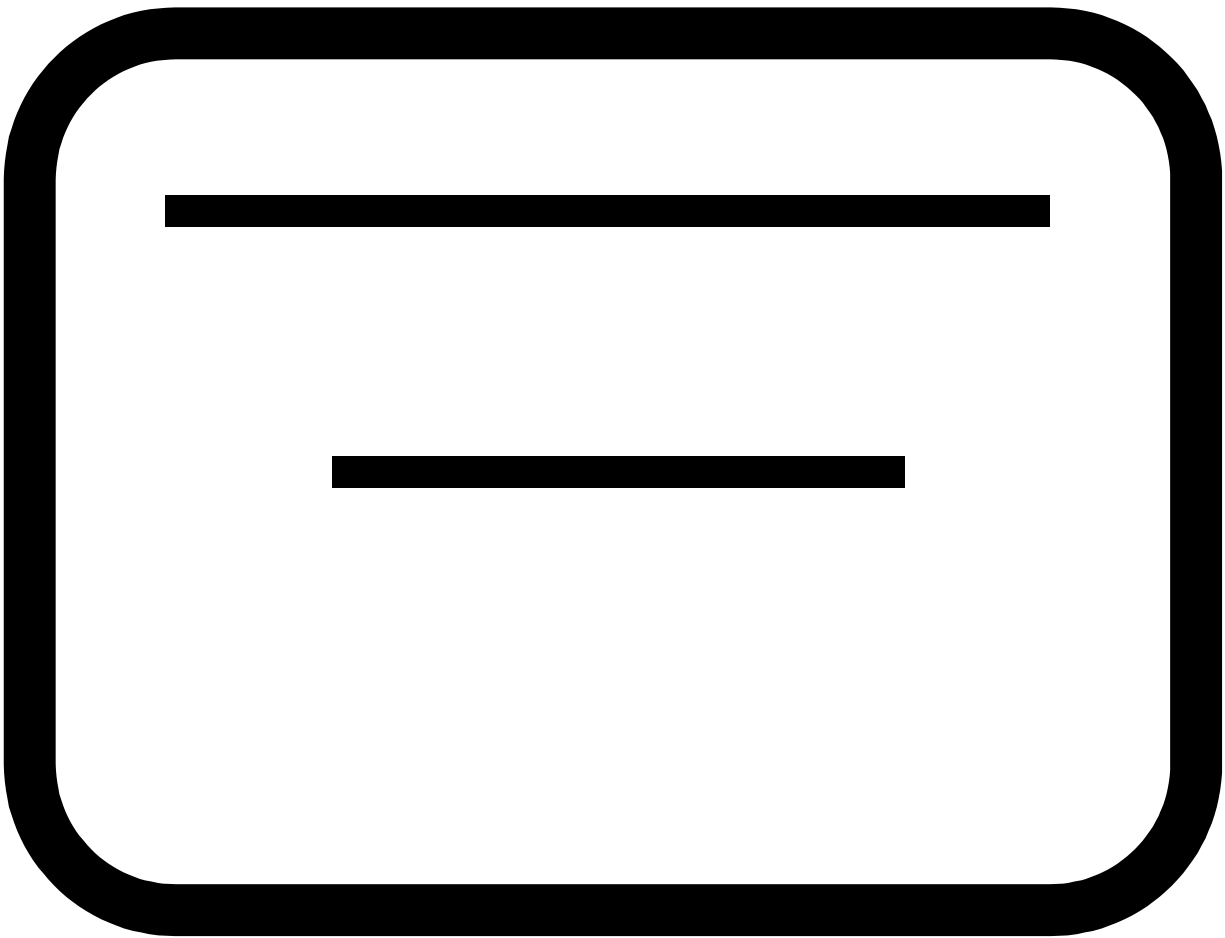
Privatization has yielded positive results, but its full success depends on (1) sufficient political will to complete privatization, (2) a higher level of managerial accountability and better corporate governance, and (3) the presence of a fair and competitive business environment.

USAID has determined that its enterprise development activities should be designed along six strategic program areas:

1. Legal and regulatory reform
2. Association development
3. Technical assistance and training for enterprises

4. Financial services development
5. Educating the next generation of entrepreneurs and managers
6. Promoting the political will to complete privatization.

# Overheads





# **Principles of Local Economic Development**

Business, not government, creates wealth.

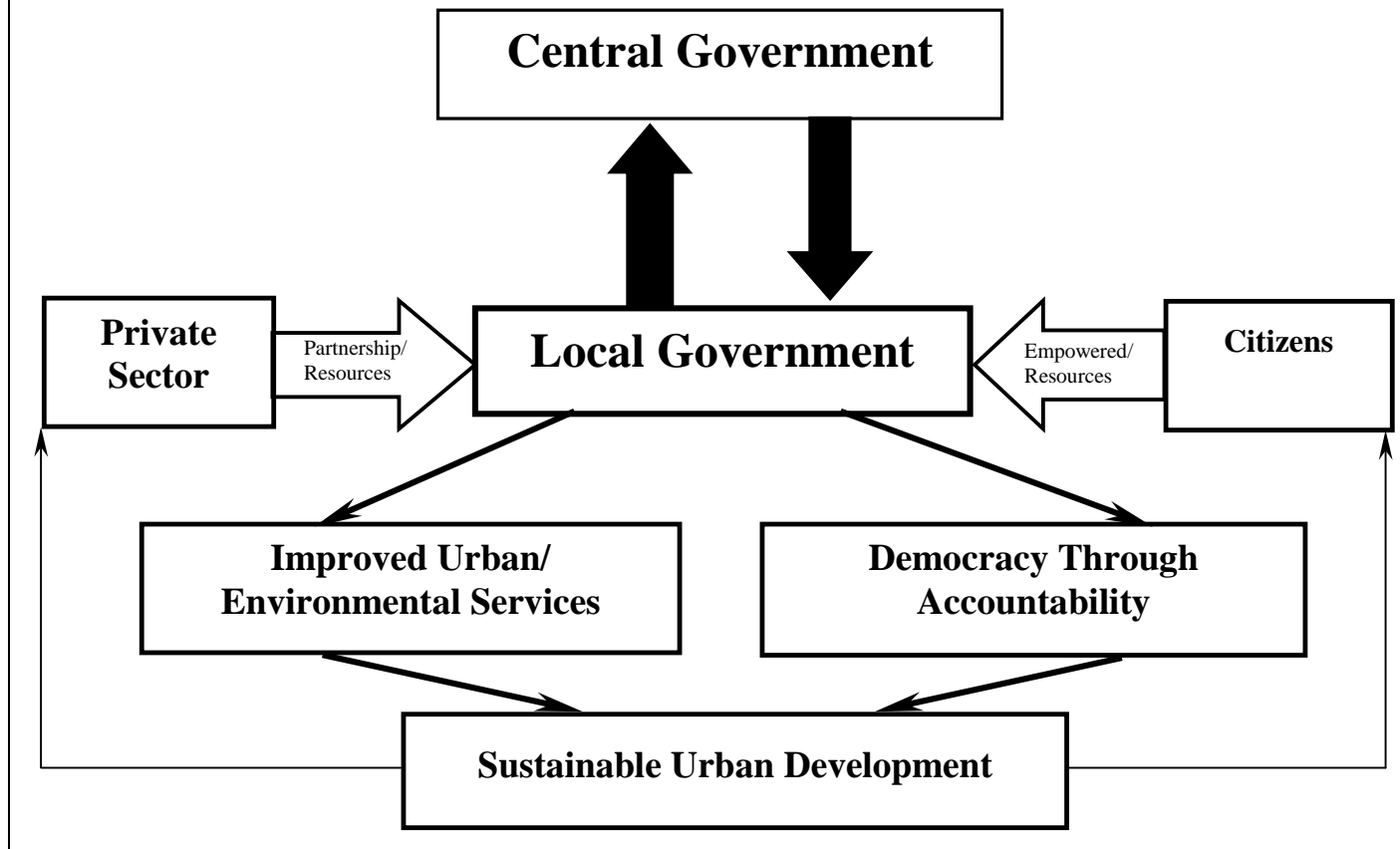
# Firms Create Wealth

- < Revenues for public expenditures
- < Income for citizens
- < Capital for investments

# Supporting Principles

- < Efficiently run public institutions reduce the cost of production.
- < The physical environment contributes to the competitive advantage of a city.
- < Access to employment opportunities improves the overall wealth of a community.
- < Local economic development programs should be executed in partnership with national government

## The Empowered Local Government



# Course Topics

- < Enabling environment
- < Enhancing the investment environment
- < Maximizing the value of community resources
- < Sustainability

## **Lessons Learned**

- < The local government's actions need to reduce transaction costs for business.
- < The biggest impediment to economic development is lack of progress in economic and commercial reforms.
- < The collective voice of businesses is key to achieving reforms and encouraging an enabling environment.
- < Building local capacity to provide services to enterprises should be a top priority in the design of economic development programs.

## **Lessons Learned, Continued**

- < The main impediment to financing is a poor investment climate; capital follows return.
- < Citizens, businesses, and others still lack a good understanding of a market economy and the role of private business; more dialogue and public-private partnerships are needed.
- < Privatization is important; it depends on the political will of government.

# Transition Indicators

- < Governance and restructuring
- < Price liberalization
- < Trade and foreign exchange system
- < Competition policy
- < Banking reform and interest rate liberalization
- < Securities markets and financial institutions
- < Large-scale privatization
- < Small-scale privatization



# Three Stages of Enterprise Development

*At the beginning of these three stages, businesses operate in a largely chaotic environment. As they move through each stage, they progress toward a better-regulated, more open, and more competitive marketplace.*

**Formation of Functional Markets**



**Market Development**



**Enterprise Formation**

# Strategic Program Areas

- < Legal and regulatory reform
- < Association development
- < Training and technical assistance for enterprises
- < Financial services
- < Education of a new generation of entrepreneurs and managers
- < Privatization

# Legal and Regulatory Reform

## **Enterprise Formation:**

- < Educate public officials about how an open market economy works and the legislative changes needed to achieve it.
- < Inventory regulatory impediments to the development of private enterprise.
- < Survey firms.

## **Market Development:**

- < Provide training and technical assistance for public officials regarding their roles and responsibilities.
- < Provide training in policy analysis and strategic management to associations and think tanks.
- < Facilitate stakeholder dialogue.

## **Formation of Functional Markets:**

- < Promote public-private partnerships for enterprise development.
- < Hold public forums for debating issues.
- < Foster regional networks to carry forward momentum for reform.

# Association Development

## **Enterprise Formation:**

- < Encourage collective action among entrepreneurs and others to improve business opportunities.

## **Market Development:**

- < Provide support for trade and professional association activities.
- < Offer training in association management, advocacy, and coalition building.

## **Formation of Functional Markets:**

- < Support regional networks of associations and business coalitions.
- < Look for opportunities to link efforts with U.S. counterpart associations.

# **Training and Technical Assistance for Enterprises**

## **Enterprise Formation:**

- < Use foreign experts to provide technical assistance to private businesses.
- < Identify and train local professionals in consulting techniques.

## **Market Development:**

- < Reduce subsidies.
- < Encourage greater use of local experts.
- < Focus on local skill building.

## **Formation of Functional Markets:**

- < Target funding to promote best practices (through associations, information networks, etc.).
- < Increase regional trade.

# Financial Services

## **Enterprise Formation:**

- < Deal directly with businesses to demonstrate viable financing (credit for micro- and small-scale enterprises) to both borrowers and future lenders and investors.

## **Market Development:**

- < Work with progressive banks with means to finance.
- < Introduce alternative approaches (equity financing, leasing, credit unions, etc.).
- < Continue with viable financing schemes (micro and other).

## **Formation of Functional Markets:**

- < Provide training in best practices.
- < Refine non-bank financing schemes.
- < Develop secondary capital markets.

# Education of the New Generation

## **Enterprise Formation:**

- < Train educators in market economics.
- < Provide educational programs for youth.

## **Market Development:**

- < Provide programs that give youth and pre-entrepreneurs hands-on opportunities to work with local businesses.

## **Formation of Functional Markets:**

- < Promote partnerships between business and educational organizations to provide continuing education of managers and workplace training of young entrepreneurs.

# Privatization

## **Enterprise Formation:**

- < Focus on small-scale privatization, which is most easily accomplished.
- < Educate officials about the importance of privatization.
- < Facilitate deals.
- < Emphasize corporate governance.

## **Market Development:**

- < Continue pushing for privatization.
- < Reduce direct involvement in valuation and deal-making, allowing local entities to take on this responsibility.
- < Incorporate privatization into the legal/regulatory reform agenda.

## **Formation of Functional Markets:**

- < Make privatization part of the ongoing dialogue about creating a viable market economy.



## Applying the Strategy

- < Undertake diagnostic analysis of stages for each program area, in collaboration with partners.
- < Use results to determine bottlenecks, identify local partner organizations, set priorities, and design activities.
- < Regularly monitor progress.
- < Adapt program strategies as local conditions change.

# **Establishing a Framework for Analysis**

Completing the transition from state to privately owned factors of production.

# Factors of Production

< Land

< Labor

< Capital

## **General Issues**

- < Legislative
- < Regulatory
- < Economic  
Conditions

## **Factors of Production**

**Small and  
Medium-Sized  
Enterprises  
(SMEs)**



## Handout: Local Economic Development Terms and Definitions

Term	U.S. Definition	Country Definition
<b>Political and Administrative Units</b>		
1. Local government	Any unit of government below national.	_____
2. City	An incorporated geographic place with specific political boundaries and legal powers.	_____
3. County	An administrative subdivision of a U.S. state.	_____
4. Municipality	An administrative unit incorporated for local self-government.	_____
5. State	For purposes of this course, a national administrative governing unit.	_____
6. Region	A geographic area within which compatible political, economic, and cultural values are found.	_____
7. Political boundaries	Geographic boundaries established by legislative act.	_____
8. Economic boundaries	Geographic boundaries established by shared economic exchange, trade, or transactions.	_____
9. Legislative policy	Drafting and enactment of laws granting some unit or person authority to define the action of others.	_____
10. Regulatory policy	Control or limits of private action as allowed by laws.	_____
11. Public sector	Institutions or organizations enabled or established by government.	_____

### Positions in Local Government

1. Mayor	Elected chief political and administrative officer of a unit of local government.	_____
2. Council	Elected legislative representative.	_____
3. Commission	Body of elected legislative/administrative representatives.	_____
4. Executive officer	Appointed administrative official.	_____

Term	U.S. Definition	Country Definition
5. Director government	Chief administrative officer of a department or administration.	functional division of a local
6. President	Leader of the elected legislative body.	

#### Nonadministrative Subunits Within Local Governments

1. Board	Typically an appointed body of citizens who generally assume regulatory responsibilities for the local government.	
2. Commission	An elected or appointed body that manages a subunit of local government administration or special district.	
3. Task force	An appointed group of citizens who assume an advisory role, providing the legislative body with information about a special issue or project.	

#### Administrative Units Within Local Governments

1. Department	A unit within a municipal government charged with the responsibility of a vital municipal function (e.g., budget and finance, community services, public works) with its own director, staff, and resources.	
2. Division	A subunit of a department (e.g., budgeting, parks and recreation, sewage).	
3. Municipal utility	A municipal enterprise that functions under the authority of local government legislative and administrative bodies. Typically restricted to sewer, water, solid waste, and sometimes electric services.	

Term	U.S. Definition	Country Definition
<b>Community Organizations</b>		
1. Nongovernmental organization	Either a nonprofit or a private organization that can deliver services in lieu of the municipal government.	
2. Public enterprise	A corporation that is capitalized with tax dollars.	
3. Private enterprise	A corporation or business capitalized with private and/or individual funds.	
<b>Local Revenue and Financial Terms</b>		
1. Property tax	A tax based on the assessed value of the property, either real estate (land and buildings) or personal property.	
2. Fee (user fee, charge, tariff)	An amount of money—either fixed or variable—to be paid by citizens and businesses for municipal services and privileges.	
3. Permit/License	An authorization given, for a charge, by the government under its regulatory powers to an individual or business to undertake a particular task.	
4. Income tax	A tax levied on the gross income of an individual or for-profit business.	
5. Subsidy	A payment made to governments/persons when they are unable to meet their operating/living costs.	
6. Grant	A payment of money from one governmental unit to another or from a governmental unit to a nonprofit agency.	
7. Transfer	A transfer of money from one fund to another in a government unit. Transfers usually have to be approved by the governing body and are normally subject to restrictions in state and local law.	

Term	U.S. Definition	Country Definition
8. Bond	A promise to repay borrowed money on a particular date, usually 10 or 20 years in the future. Used by local governments to obtain long-term financing for capital projects.	
<b>Budgetary Terms</b>		
1. Capital budget	A spending plan for improvements on or acquisition of land, facilities, and infrastructure.	
2. Operating budget	The portion of a budget that deals with recurring expenditures for services and programs (e.g., salaries, electric bills, postage, printing).	
3. Annual budget	A spending plan that balances revenues and expenditures over a year and includes a work plan.	
4. Debt	The principal and interest that a local government has borrowed from private financial institutions, state governments, or international credit institutions.	
<b>Economic Development Terms</b>		
1. Financial incentive program	A municipal government's use of its authority to reduce or leverage public funds for private enterprises.	
2. Municipal assets	Land and buildings owned by a local government unit.	
3. Public-private partnership	Joint ownership by a political administrative unit and a private enterprise.	
4. Real net return	Value of an asset or financial incentive less the revenues generated through taxes, new employment wages, or increased fees.	



Term	U.S. Definition	Country Definition
5. Investment environment	The political, economic, and administrative conditions that influence decisions on the use of private sector money.	_____
6. Intervention policies	Action taken by a government to change or eliminate a condition that stops or impedes investment by private sector.	_____
7. Factors (inputs) of production	The mix of land, labor, and capital that produces a good or service.	_____



## Handout: Adapting Program Strategies

### Stages of Private Enterprise Development

Program Strategy	Enterprise Formation	Market Development	Formation of Functional Markets	Final Objective/Result
Legal and Regulatory Reform	Educate public officials about how an open market economy works and the legislative changes needed to achieve it.	Provide training and technical assistance for public officials regarding their roles and responsibilities.	Promote public-private partnerships for enterprise development.	Laws and regulations that establish an open, competitive marketplace.
	Inventory regulatory impediments to the development of private enterprise.	Provide training in policy analysis and strategic management to associations and think tanks.	Hold public forums for debating issues.	Transparent legislative processes.
	Survey firms.	Facilitate stakeholder dialogue.	Foster regional networks to carry forward momentum for reform.	Legal framework that promotes sound corporate governance practices.
Association Development	Encourage collective action among entrepreneurs and others to improve business opportunities.	Provide support for trade and professional association activities.	Support regional networks of associations and business coalitions.	Member-based trade and professional associations that serve the needs of the public and private sectors.
		Offer training in association management, advocacy, and coalition building.	Look for opportunities to link efforts with U.S. counterpart associations.	
Training and Technical Assistance for Enterprises	Use foreign experts to provide technical assistance to private businesses.	Reduce subsidies.	Target funding to promote best practices (through associations, information networks, etc.).	Enterprises buy services in the marketplace on a commercial basis.
	Identify and train local professionals in consulting techniques.	Encourage greater use of local experts. Focus on local skill building.	Increase regional trade.	Local partnerships (public-private) offset costs of services for small and micro sectors.

Stages of Private Enterprise Development				
Program Strategy	Business Formation	Market Emergence	Formation of Market Economy	Final Objective/Result
Financial Services	Deal directly with businesses to demonstrate viable financing (credit for micro- and small-scale enterprises) to both borrowers and future lenders/investors.	<p>Work with progressive banks with means to finance.</p> <p>Introduce alternative approaches (equity financing, leasing, credit unions, etc.).</p> <p>Continue with viable financing schemes (micro and other).</p>	<p>Provide training in best practices.</p> <p>Refine non-bank financing schemes.</p> <p>Develop secondary capital markets.</p>	Access by businesses of all sizes to a range of financial products that meet their need to establish and/or expand.
Education of a New Generation of Entrepreneurs and Managers	<p>Train educators in market economics.</p> <p>Provide educational programs for youth.</p>	Provide programs that give youth and pre-entrepreneurs hands-on opportunities to work with local businesses.	Promote partnerships between business and educational institutions to provide continuing education of managers and workplace training of young entrepreneurs.	A society that understands and values entrepreneurship and an open-market economic system.
Privatization	<p>Focus on small-scale privatization, which is most easily accomplished.</p> <p>Educate officials about the importance of privatization.</p> <p>Facilitate deals.</p> <p>Emphasize corporate governance.</p>	<p>Continue pushing for privatization.</p> <p>Reduce direct involvement in valuation and deal-making, allowing local entities to take on this responsibility.</p> <p>Incorporate privatization into the legal/regulatory reform agenda.</p>	Make privatization part of the ongoing dialogue about creating a viable market economy.	<p>A minor share of productive enterprises are state-owned.</p> <p>State-owned enterprises are not a drain on the state budget.</p> <p>The majority of economic wealth is generated from the private sector.</p>



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## Handout: **Overcoming Constraints**

Listed below are three general issues that should be considered when developing country-specific economic development strategies designed to stimulate the investment environment for SMEs and create an effective local economic development program. Participants should form regional or country groups. Working together, they should list general constraints that preclude:

The creation of effective local economic development programs

A strong SME investment environment

The completion of the transition from state-owned to privately-owned inputs of production.

Once all the constraints are listed, the group should identify the four most critical ones. Each group will be asked to present these four constraints.

## Constraints

Sample Issues	Factors of Production		
	Land	Labor	Capital
<b>Legislative Base</b> Local government autonomy Fiscal reform Taxation Labor			
<b>Regulatory Environment</b> Free trade Competitive procurement Private property rights Pricing			
<b>Economic Conditions</b> Unemployment Consumer wealth Access to markets			



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## Handout: Economic Development Framework

One goal of this course is to develop an economic development strategy that you can use after returning to your community. As the course progresses, information will be presented that will assist in this process.

Using the attached worksheet, note how each session addresses the constraints that you have raised in your small group discussions. You may want to record ideas during the session, during breaks, after the session, or in the evening. The information recorded on the worksheets will be used later in the course to work on your overall strategies. As you complete the worksheets, consider the following questions:

Which issues can be addressed by your organization? How can your organization address these issues?

What level of government or institutions are best suited for addressing the constraints?

What would be a reasonable outcome of an economic development program? In what time frame can one expect results?

How will your suggested strategy affect conditions in your community? In your country?

What other organizations—government, private, or nongovernmental—should be considered as partners in addressing the constraints?

## Application Worksheet

Condition or Barrier To Be Addressed	How Session Objectives Relate to Condition	Applicable Approaches or Practices To Consider	Potential

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## **Session 2 (Day 1 Afternoon)**

### **The Role of Local Government in the Global Economy**

#### **Session Overview**

Global competition is reordering traditional governing structures, as transitional countries seek to build more competitive, demand-driven markets. If communities in the region are to be successful in attracting economic development, the roles of both the local and the national governments must be redefined and governing responsibilities reassigned. Using the United States and European Union as models, this session will focus on the national framework required for effective local economic development in a global economy. The presentation examines the impact the national framework has on effective legislative, regulatory, and fiscal policies and discusses which level of government can be most effective in taking on the responsibility for various types of policy.

Government responses to the challenge of restructuring the governing framework have varied depending on the economic and political conditions in the country. In this session, case studies that describe the economic development activities of the region's communities during the ongoing transition should be presented. Each speaker should explain the actions taken in the context of the national political and economic conditions that existed.

#### **Session Objectives**

- To identify and explore the impact of macroeconomic conditions that affect competitiveness, particularly trade policy and export regulations.
- To identify the legal and regulatory framework necessary for local government officials to most effectively improve the economic conditions in their community (giving special attention to a balance between fiscal authority and administrative responsibility).
- To examine various approaches that mitigate the effects of a weak legal and regulatory framework.
- To identify the level(s) of government that should be the nexus of control for certain laws, regulations, and programs.
- To discuss interim steps that will reduce the impact of ineffective national policy and macroeconomic conditions.





## Trainer's Notes

### **1¼ hours      Presentation: The Role of Local Government in the Global Economy**

*This presentation is a plenary with open discussion and analysis. The presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

- 15 min*      1. Begin by introducing the topic and relating it to the five principles of local economic development introduced in Session 1. Ask participants to think about what makes a local government successful in attracting new businesses and encouraging the growth of existing business. List responses on the flip chart.
- 50 min*      2. Once you have generated a list, use the participants' responses as a springboard to your presentation. Follow the talking points and the overheads to discuss how local governments can affect economic development. Emphasize throughout your presentation the specific role and power that the local government has in this effort. Use specific examples to illustrate how other communities have effectively implemented the principles discussed.
- 10 min*      3. Ask if there are any questions before continuing with the guest speakers' presentations.

### **2 hours      Case Studies: The Role of Local Government in the Global Economy**

*These presentations from guest speakers are meant to apply the concepts introduced in the presentation. Because the session relies on open discussion to bring home key points, the facilitator must be energetic and aggressive in helping participants understand the link between global economic trends, national policies, and local economies and government. The case study outline in the Overview is designed to help speakers prepare their presentations.*

- 60 min*      1. Introduce the two guest speakers, who will share information about the economic development initiatives in their communities and the actions that the local government and other community groups have taken. Allow each speaker 25 minutes for his or her presentation. Following each presentation, ask for questions from the audience.

- 20 min*
2. Link the case presentations back to the general principles outlined earlier. To generate an open discussion, ask participants the following questions about each of the cases:
- How did macroeconomic factors create opportunities for the economic development activity described? How did they make the initiative more difficult?
- What steps did the community take to mitigate the impact of ineffective or detrimental laws or regulation? Are there other steps that might have also been effective?
- 30 min*
3. Continue by relating the discussion to the participants' own experiences. Ask:
- What similarities exist between conditions in your own community and those of the presenters?
- What would be the appropriate agency, ministry, or other institution to work with to facilitate the necessary changes in laws and regulations as described in the presentation?
- What do you believe to be the most difficult aspect of the local government's role in economic development, based on what you have heard? What is the most important role of the local government? Encourage participants to share their experiences in addressing these issues.
- 10 min*
4. Conclude with a summary of the discussion. Make sure to touch on the following key points:
- Characteristics of a good investment climate include flexibility, accessibility, predictability, and transparency.
- Any local government can take actions that improve the business environment, even where there is no national framework for economic development in place.
- Municipal leaders who understand the needs and operations of private firms add value to the economic development environment.
- Community leaders must understand how global economic forces affect local firms and the resulting opportunities that may be created.
- Citizens and citizen groups, industry, and government must work together.



## Talking Points: The Role of Local Government in the Global Economy

The following ten ideas, from a practitioner's perspective, can help ensure success in economic development activities:

1. Think globally; act locally.
2. Adjust to the radical rate of change in the world today and in transition economies in particular. Local economic development deals with the business of change.
3. Keep in mind that economic development is a long-term proposition. Use short-term tactics to reach long-term goals.
4. Focus on small and medium-sized enterprises (SMEs), with which you are most likely to be successful. Growing domestic SMEs is better than importing large foreign companies.
5. Exports are essential. Today's markets are regional.
6. Gain a comparative advantage in local economic development by attracting smart people and smart firms and building smart communities.
7. Be creative. Think outside the box. Innovation is key to economic development.
8. Remove barriers to economic development. Make it efficient and easy for businesses to come into the community. Look for ways to reduce information costs and transaction costs. Avoid over-regulation and prejudice. Look for opportunities to pool and spread risk.
9. Forge partnerships among the three sectors of the community. The role of the private sector involves generating jobs, income, and wealth; the role of the public sector is to steer economic activities; and the role of nongovernmental organizations is to ensure accountability.
10. Use your imagination.

### Catchwords of Business Attraction

Transparency

Predictability

Ease

Flexibility.

### **Ten Best Practices for Economic Development Organizations**

1. **Scale:** To make a difference, a project must achieve a scale that enables it to influence the mainstream economy, rather than operating as a good pilot effort on the margin.
2. **Market driven:** A “best practice” economic development initiative aims to improve the effectiveness of the marketplace, rather than simply create public services. The goal is to influence thousands of private-sector decisions.
3. **Leverage:** A primary means to achieve scale and change the market is the use of public dollars, incentives, or requirements to leverage vastly greater private investments or actions.
4. **Private ownership:** When private organizations (e.g., businesses, unions, universities) control an economic development initiative, they take it far more seriously than if it is publicly owned and controlled. The most effective “programs” are often those run by the private sector.
5. **Flexibility/adaptability:** Markets change. The best economic development initiatives are structured to accommodate these changes in the marketplace. This means no legislative micro-management.
6. **Performance driven:** Along with flexibility comes accountability. Outputs and outcomes, not inputs, must be measured, and management held accountable for results.
7. **Private management standards:** “Best practices” succeed in part because they are managed by the best managers. Good management requires incentive-driven pay on par with comparable private-sector opportunities.
8. **Customer driven:** Successful initiatives carefully identify their customers, focus on delivering services to meet the needs of that customer base, offer choices, and distinguish customers from constituencies.
9. **Focused on regions and sectors:** Local governments must work with others in their region to build a program that will attract major industry. Effective economic development initiatives encourage cooperation rather than competition among communities in a region and allow for implementation at regional and sectional levels so that initiatives can be tailored to the needs of different regions and industries.

10. Self-sustainability: A “best practice” must demonstrate an ability to endure through political and fiscal changes. Its governance and financial structures must therefore balance independence with accountability.

## **Economic Growth vs. Economic Restructuring**

Economic growth or decline happens to an economy; it is the net impact of external national and international market forces and policy decisions on a local or regional economy. At its most extreme, local employment, income, and quality of life rise or fall under the whim of decisions and actions far removed from local control or hard work.

Economic restructuring, on the other hand, is choice. It occurs when local leaders choose to identify, invest in, and develop the community’s unique set of “comparative advantages,” enabling workers, firms, and industries to better compete in regional, national, and international markets. Economic restructuring means making market forces work for , rather than upon, the community.

National governments can create macroeconomic conditions that facilitate local and regional economic development. They can create stable currencies with low levels of inflation; remove trade barriers from export and import markets; implement sound and transparent legal, economic, financial, tax, and regulatory systems; encourage open and transparent financial and labor markets; and build reliable political systems.

The local government’s role is to build market-driven, public-private partnerships that will create long-term jobs, income, and wealth. In the end, the town or region must restructure itself. Economic restructuring is successful only if it is a long-term process with commitment, driven by an innate understanding of local comparative advantages, and continually adapted and adjusted as needs and opportunities change.

Steps in this process:

1. Focus on the economic base. All firms in every community in every nation of the world are competing in today’s increasingly integrated global marketplace. Only those firms that export goods and services from a local market to a regional, national, or international market are importing new wealth, new income, and new jobs to build the local economy. Economic base industries drive the economy; distributive industries—secondary and tertiary firms—recirculate wealth that is already within the local economy. The first step in restructuring is to identify the economic base firms that drive the economy and to develop a strategy to expand and diversify that base.
2. Build on your comparative advantage. The welfare of a region depends upon the development of industries that possess a comparative advantage in the

external market. Trade is mutually profitable if every economy specializes in those products and services in which it is most efficient.

3. Identify market barriers—those problems that prevent a local economy from performing at its potential. Market barriers tend to fall into the following categories:

High information or transaction costs

Market prejudice

Risk aversion

Insufficient competition

Government regulations and policies.

4. Correct the causes of market barriers. Focus on causes, not symptoms. Approaches could include business foundation strategies or business recruitment strategies.
5. Keep your initiative focused. Help leadership focus on building local comparative economic advantages and on removing market barriers. Take these steps:

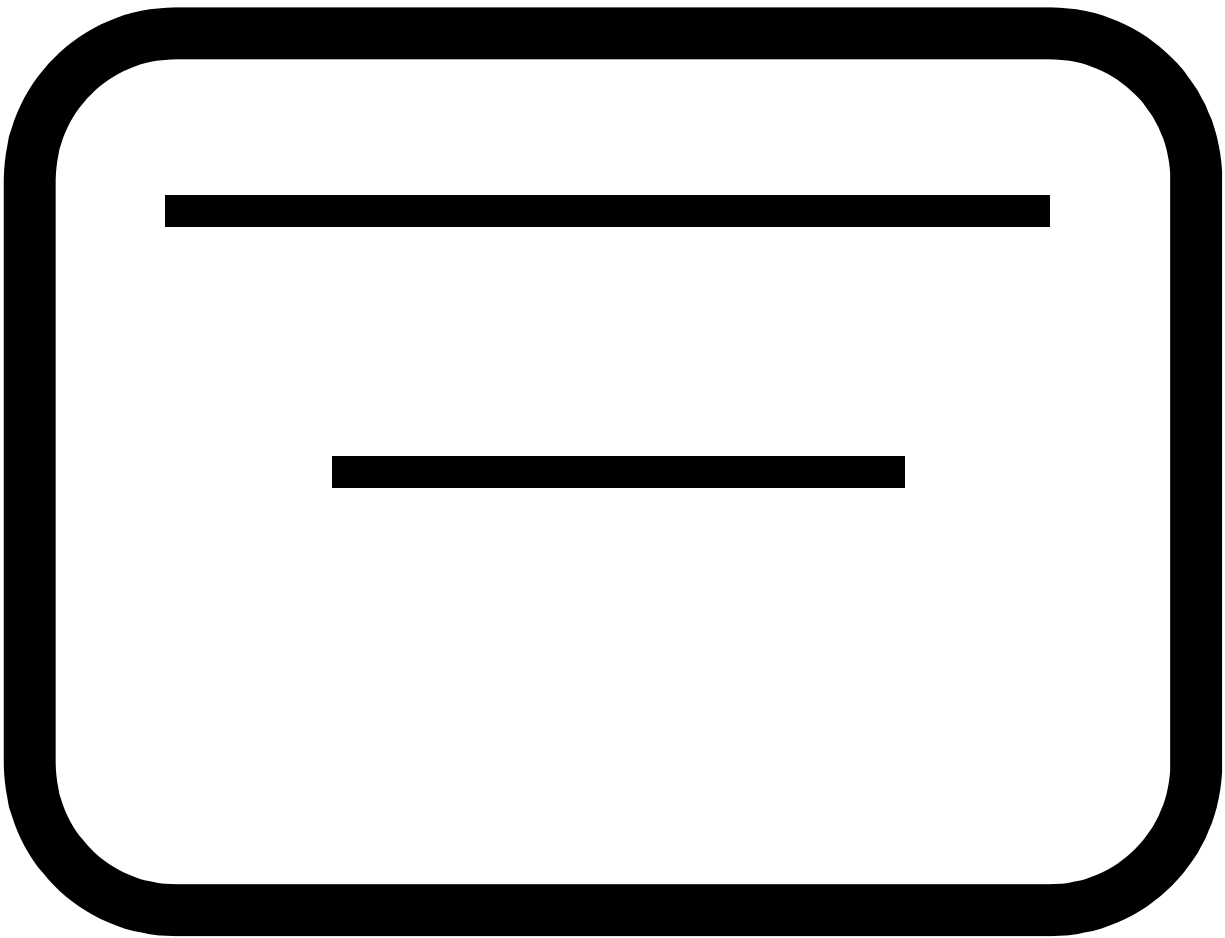
Develop your own economic restructuring strategy only after carefully evaluating local market opportunities and potential barriers to success.

Continually revise the market evaluation.

Define the economic area you intend to redevelop.

Gather information from sources outside your region on your economy, industries, and public infrastructure to learn how your region is perceived by outsiders.

# Overheads



# Catchwords of Business Attraction

< Transparency

< Predictability

< Ease

< Flexibility



# **Role of Local Government in Economic Restructuring**

- < Build market-driven, public-private partnerships that will create long-term jobs, income, and wealth.
- < Commit to a long-term restructuring process that takes local comparative advantages into account and continually adjust the process as circumstances change.

# Steps in Economic Restructuring

- < Focus on the economic base
- < Build on your comparative advantage
- < Identify market barriers
- < Correct the causes of market barriers
- < Keep your initiative focused

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## Session 3 (Day 2 Morning)

### Attracting Private Investment

#### Session Overview

Creating a physical and administrative environment that is attractive to business is one of the most important responsibilities of local government. Both the regulatory process and the delivery of public services contribute to this objective, and each is a cost to business. In a decentralized governing system, local governments have more rights and responsibilities in establishing limits on such concerns as protection of the environment, building codes, physical appearance, use of land, and so forth. This session looks at this concept from the perspectives of the private investor and the public sector.

#### Session Objectives

- < To identify the factors that affect business start-ups, expansion, and the long-term profitability of a firm.
- < To identify those factors that local governments can change, as well as those that they cannot.
- < To explain how local governments can overcome barriers to private investment, either directly or indirectly.
- < To explore the impact of local-level legislative and administrative problems on general development issues.
- < To examine the conditions in the participants' countries that affect local economic development.
- < To consider what additional resources would be needed to address obstacles to local economic development.



## Trainer's Notes

### **1½ hours    Presentation: Attracting Private Investment**

*This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

- |               |  |
|---------------|--|
| <i>5 min</i>  | 1. Begin by welcoming the group and reviewing what took place at yesterday's session. Ask participants if they have any questions about what they learned yesterday.   |
| <i>5 min</i>  | 2. Explain that this session will focus on what factors affect business investment decisions and what local governments can (and cannot) do to affect these decisions. Review the objectives for this session. Briefly go over the schedule of the day's activities. Remind participants to ask questions as they arise.   |
| <i>10 min</i> | 3. To get participants thinking about the issue under discussion, ask them how global trends affect the local climate for economic development. Ask them what national or international trends or might have an effect on private investment. List these on the flip chart.  |
| <i>20 min</i> | 4. Use the responses of participants to lead into a discussion of the aspects that affect an investor's decision. As you display the overhead that introduces three questions that should be used to examine the services and investment environment, ask participants what issues might surface in their communities when addressing each of these questions. Then, lead a discussion of some of these questions, using the talking points. |
| <i>20 min</i> | 5. Continue the discussion by focusing on how the local government and other key players can affect the issues and questions the group has listed. Use the talking points.   |
| <i>20 min</i> | 6. Ask participants to reflect on what you have discussed. Based on what they know, what characteristics should local governments have in order to stimulate investor activity? List their responses on the flip chart. When they have completed the list, add any of the following responses that have not been mentioned:  |

< Vision

< Political will to implement changes

< Capacity to stimulate demand for the provision of quality services

- < Capacity to deliver a clear and succinct mission
- < Capacity to implement coherent citizen support and public outreach programs
- < Well-informed and well-respected decision makers
- < Capacity to develop and implement a strategic plan linked to long-term investment, planning, economic, development, and community needs.

*5 min*            7. As a group, review the list of characteristics you have developed and lead a discussion on which elements are most important for attracting investment.

*5 min*            8. Conclude with a summary of the discussion. Key points to consider are:

- < Any differences between what participants actually thought was important to business investors and what was highlighted in the presentation.
- < The types of issues that local government can address.
- < That local government and communities can make small adjustments in how they manage programs and projects that are valuable to the private investors but do not require legislative changes at the national level.

9. Explain that after the break, participants will return to engage in small-group work.

## **1½ hours    Group Assignment: Identifying the Barriers to an Investment Environment**

*5 min*            1. Break participants into small groups. Each group should have between three and six participants.

*10 min*            2. Introduce the activity by explaining that investors are confronted with many problems that reduce the ability of their firm to generate wealth. In a decentralized system, these are problems that local governments must confront. Distribute the handout, “Identifying the Barriers to Creating an Attractive Investment Environment.” Explain that each of the five barriers listed on the handout relates to a local government responsibility. Working in small groups, participants should select one barrier. Then they should answer the questions on the handout to explore how it is affecting their local investment environment and what can be done to alleviate it. Allow a few minutes for participants to read over the handout, and ask if there are any questions before beginning.

*30 min*            3. Allow participants 30 minutes to work in their small groups. Give a reminder when there are about 5 minutes before you will reconvene.

- 25 min      4. Convene the whole group and ask each small group to briefly report on its discussion, using the questions on the handout as a guide. After each small group's report, ask for feedback from the group. In particular, look for similarities and differences among the findings of the small groups. (*Time needed will depend on the number of groups.*)
- 20 min      5. Conclude with a summary of the discussion. Ask, "What did you learn from this exercise?" Answers should include:
- < Local governments can reduce barriers through local action; they do not need to wait for the national government to change its laws or policies. Specific examples should illustrate how the local government might be able to get around some of the obstacles discussed.
  - < Public officials play a key role in entering into sound dialogue with private business; knowledge of business's needs is required to build partnerships, as are skills in negotiation and communication.
  - < Public action can create an attractive investment environment for private enterprise; some specific techniques should be reviewed.
6. Remind participants of the time and place to reconvene after lunch.



## Talking Points: Attracting Private Investment

Investment in local governments has been undergoing significant changes in the E&E region over the last decade. There is a strong trend toward decentralization and greater private-sector involvement not only in the provision of services but also in the economic development within local governments. This movement increases the responsibility of local governments to think strategically about how to deliver improved public services and improve the investment environment.

Three questions that affect private investment:

*Question 1:* Are the legal and regulatory environments conducive to investment?

- < What bureaucratic procedures must be followed to start a new business?
- < Are contract laws reliable?
- < How can I recover my money if a contractor fails to deliver the product?
- < How much of the local economy does the local government control? What controls are in place?

*Question 2:* Who provides and pays for public services?

- < How much do the services cost? Is the cost structure transparent?
- < Who provides the services?
- < Are the services reliable?
- < Can I locate my business in the location where I am able to best exploit cost advantages? Can I move my goods easily to exploit cost advantages?

*Question 3:* How can you utilize existing assets to enable the private sector to achieve comparative advantage in the local economy?

- < How can I buy land to build a warehouse?
- < What assets does the local government have that will provide business cost advantages?

## **Are the Legal and Regulatory Environments Conducive to Investment?**

In the E&E region, country experts stress that the reform of the legal and regulatory environments is a prerequisite to local government's ability to attract investors, especially foreign investors. Potential investors cite as obstacles heavy tax burdens, crime and security issues, inadequate credit and financing availability, a complex and seemingly endless maze of bureaucratic regulations, and constantly changing tax laws. The national government thus plays an important role in creating an enabling environment for investors to participate in a local economy. Its responsibilities are to:

- < Ensure the stability of fiscal and regulatory policies. Volatility and instability in these policy environments inhibit investor activity. If investors are uncertain of the climate in which they are undertaking business, they will be less willing to take the inherent risk of new investment.
- < Ensure macroeconomic stability. Fiscal policies should encourage low inflation and stable exchange rates. This may require a reduction in public spending.
- < Fix the legal framework. Investors need a stable, reliable legal framework that guarantees property rights and allows for the development and enforcement of contracts.
- < Streamline processes and controls. Governments need to reduce the red tape involved in administrative and regulatory controls. All processes should be transparent and consistent.

Local governments also can play an important role in influencing the local investment environment. For example, they can provide services designed to help investors navigate both local and national tax and regulatory systems, creating a "one-stop shop" for investors that could serve as a central point of contact for businesses working with various government departments or agencies. The local government also should keep local taxes and regulations investor-friendly by considering their effect on businesses and the overall investment environment.

Local governments can play an equally important role in influencing the broader investment environment by working independently and through municipal associations to encourage appropriate national reforms.

## **Who Provides and Pays for Public Services?**

Those consumers who directly benefit from a public service should pay an increasing share of the costs of that service through direct user fees or charges. The use of user fees is compelling because it provides increased revenue streams not only for operation and maintenance of services, but also for investment. User fees typically improve economic efficiency and minimize waste.



Revenue requirements serve as a basis for calculating prices of services. From the perspective of the investor, the charges should cover operating and maintenance costs and allow for investment to preserve or improve service delivery and profit. From the consumers' perspective, the charges should be transparent and equitable and should enable comparative advantage.

Deciding who should provide services is the responsibility of the local elected body. In many E&E countries, local governments have experienced difficulties in financing the investments necessary for service provision. There are two main reasons this occurs: (1) low revenues and high citizen expectations hamper the public sector's ability to invest in infrastructure at a sufficient level; and (2) public-sector debt and other management difficulties interfere. As a result, many local governments have considered abdicating the responsibility for providing services to the private sector.

Private-sector involvement in the provision of services has the following advantages:

- < The private sector is free from government intervention in the day-to-day management and is protected from political pressure.
- < The private sector is released from the constraints on financing that are imposed on public ownership.
- < Access to capital markets makes it easier for the private sector to pursue effective investment strategies for cutting costs and improving standards of service.
- < A system of economic regulation ensures that the benefits of greater efficiency are passed on to customers in the form of lower prices and better service.
- < Private companies are better able to attract high-quality management from other parts of the private sector.

From the perspective of an investor in the local economy, it is crucial that quality services be provided at reasonable prices to ensure comparative advantage. Usually, the private sector is able to deliver better services than the local government. This often acts as a catalyst for investors to participate in the local economy. To encourage private-sector involvement, local governments have to establish appropriate policies, regulations, and ordinances.

### **How Can You Use Existing Assets To Enable the Private Sector To Achieve Comparative Advantage in the Local Economy?**

Investors in a local economy often ask what assets are available that will enable comparative advantage. In particular, they are interested in what land is available for development or what developed properties are available for rehabilitation and business occupation.

Privatization of land and property is an important method of triggering private investment, particularly for small and medium-sized enterprises. Local governments privatize land and property in a number of ways. One is restitution, which is the process of restoring land and property to previous owners or their successors in title. However, in some countries there is limited ability to restore land to the previous owners because prior ownership was insufficiently documented.

Ultimately, successful private-sector participation in land and property development will take place when:

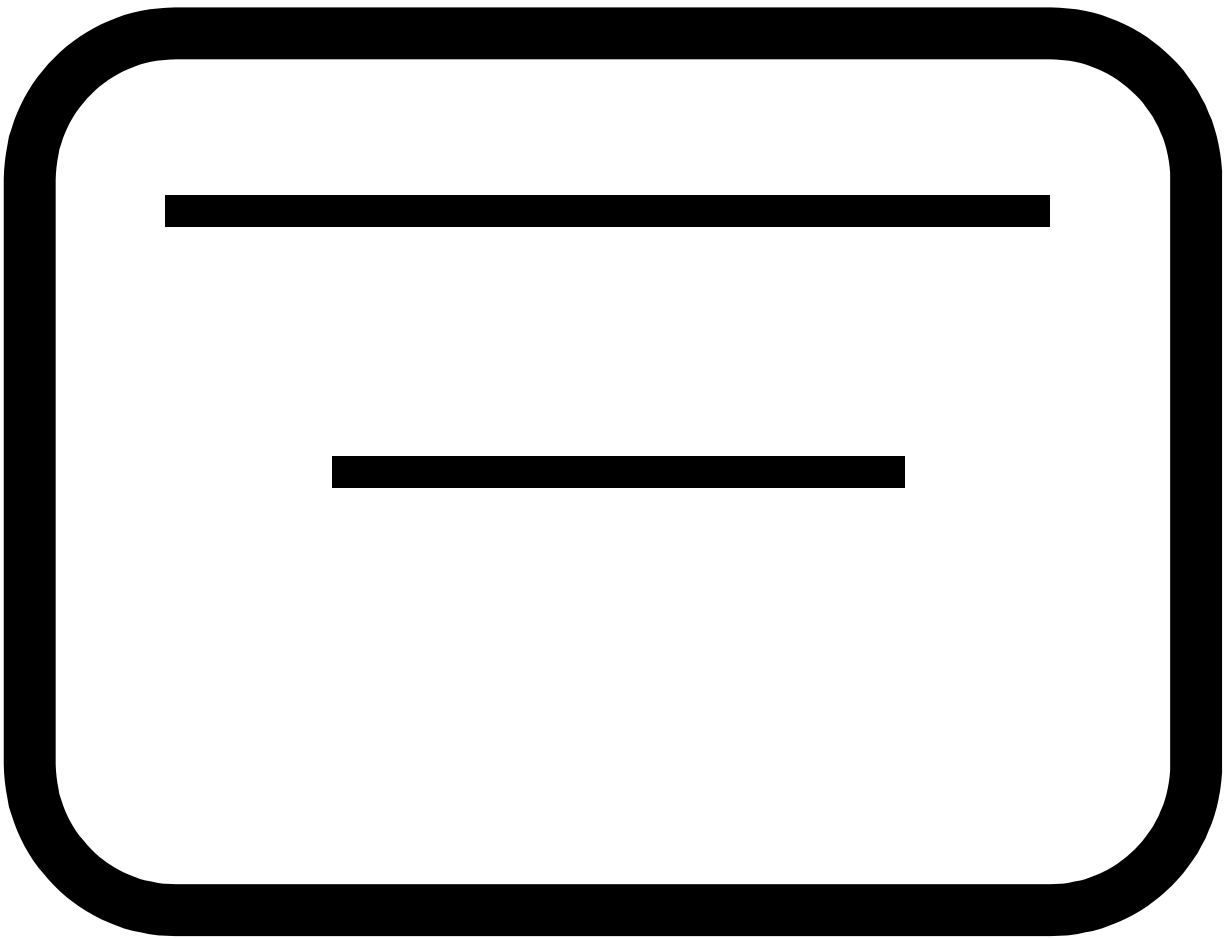
- < The title to all parcels of land is soundly based in law.
- < Transactions are recorded in a way in which the legal title and other significant legal interests can be proven with reasonable speed and cost.
- < Access to capital financing based upon an effective mortgage system is available through a commercial banking system.
- < Statutes and laws do not impose undue statutory or fiscal constraints on transactions (such as sales and leases).
- < Expertise is available to advise on legal, valuation, and other issues affecting the land.
- < The local government builds public-private partnerships for land development.
- < The local government uses its zoning powers to steer development.

Impediments to public-private partnerships and access to credit for private development are enormous in the E&E region. Without a developed banking system, a title system for private property, fiscal cadastres, and mortgage laws, local governments must find creative ways to assist investors in securing access to property and buildings. Local governments in the region have addressed these issues in a number of ways, including:

- < Constructing new commercial building space for a business (Romania).
- < Conducting an inventory of the condition of vacant or underused enterprise buildings and negotiating affordable rents for the investor (Romania).
- < Assembling land for capital projects that will increase the value of land for business development (Hungary).

Excellence in service delivery—providing the infrastructure and services needed by businesses to succeed—is also an important element in attracting new business and maintaining existing business, as well as in encouraging business growth.

# Overheads



# **Attracting Private Investment to Local Governments**

What Should Local Governments Do?

# Global Trends

Investment in local governments has undergone significant changes in recent years:

- < Strong trend toward decentralization
- < Greater private-sector involvement in the provision of services
- < Greater private-sector involvement in economic development

With that comes:

- < Increased responsibility of local governments to think strategically about how to improve the investment environment and involve the private sector in delivery of services

# How To Improve Investment Opportunities in the Local Economy

Examine the issue in terms of three questions:

- < Are the legal and regulatory environments conducive to investment?
- < Who provides and pays for public services?
- < How can you utilize existing assets to enable the private sector to achieve comparative advantage in the local economy?

# Is the Legal Environment Conducive to Investment?

National government responsibilities:

- < *Ensure the stability of fiscal and regulatory policies.* Stable fiscal and regulatory policies encourage investment activity.
- < *Ensure macroeconomic stability.* Fiscal policies should encourage low inflation, stable exchange rates, and reduced public spending.
- < *Fix the legal framework.* Investors need a stable, reliable legal framework in order to conduct business.
- < *Streamline processes and controls.* Governments need to reduce the red tape involved in administrative and regulatory controls.

# Is the Regulatory Environment Conducive to Investment?

Local government responsibilities include:

- < Providing services to help investors navigate local and national tax and regulatory systems, e.g., a “one-stop shop” that provides a central point of contact
- < Considering the effect of local taxes and regulations on businesses and the investment environment; reviewing and refining local regulations to keep businesses competitive
- < Actively participating in regional and national associations
- < Working with other entities to implement national and European Union reforms (where applicable)



# Who Provides and Pays for Public Services?

Shifting to user fees:

- < Provides increased revenue streams for operation and maintenance of services and for investment
- < Improves economic efficiency and minimizes waste
- < Requires long-term investment planning and goals
- < Requires a transparent budget and pricing of services

# **How Can You Use Assets To Enable the Private Sector To Achieve Comparative Advantage?**

The following are important to private investment:

- < Privatization of land and property
- < Access to credit
- < Public-private partnerships
- < Excellence in service delivery

# Utilizing Existing Assets

Successful private-sector participation in land and property development will take place when:

- < Title to all parcels of land is soundly based in law
- < Land sales and transactions are recorded in a way in which the legal title and other significant legal interests can be proven with reasonable speed and cost
- < Access to capital financing based upon an effective mortgage system is available through a commercial banking system
- < There are no undue statutory or fiscal constraints on transactions
- < Expertise is available to advise on legal, valuation, and other issues affecting the land
- < Local government builds public-private partnerships for land development
- < Local government uses its zoning powers to steer development

# Attracting Investment

- < Constantly ask yourself the question, “What must the local government do to attract investment?”
- < Develop and implement plans to ensure that the legal and regulatory environments are conducive to investment
- < Set a regulatory regime that ensures transparent prices for services
- < Ensure that quality services are provided at fair price to ensure comparative advantage for investors in the local economy
- < Utilize assets (especially land and property) to trigger investment opportunities

# **What Factors within Local Government Stimulate Investor Activity?**

- < Willingness among decision makers to implement changes
- < Vision
- < Clear and succinct mission
- < Ability to develop and implement a strategic plan linked to long-term investment planning, economic development, and community needs
- < Ability to establish stable linkages among the government, investors, and citizens



## Handout: Identifying the Barriers to Creating an Attractive Investment Environment

Investors are confronted with many barriers that inhibit the ability of their firms to generate wealth. In a decentralized system, barriers that must be addressed by the local government include:

1. Lack of stability: Private investors may be concerned that if a new political party assumes leadership, the commitments that the local government has made will be retracted.
2. Cumbersome bureaucratic procedures: Local bureaucracies may reflect processes and procedures used under social economic systems, so that investors perceive processes related to acquiring permits, inspections, and so forth to be time consuming or laborious.
3. Corruption: Fraud or corruption may create unstable conditions for a business and does not allow the business to accurately project operating costs.
4. Lack of reliable infrastructure: Problems with the infrastructure, such as power sources, could cause costly business disruptions.
5. Local government officials' inability or lack of desire to understand economics of private firms.

### Directions for small groups:

Select one of the above constraints. Then, working in your small group, answer the following questions:

1. What is the relationship between the execution of the local government's responsibility and the impact it has on the community's ability to attract new enterprises or to strengthen existing enterprises?
2. How does the problem affect decisions made by businesses in your country?
3. What steps have already been taken to resolve the problem? Were these steps effective?
4. How would you resolve the problem in your country? What local government actions are needed to address the condition? What national government actions are needed?
5. How could a USAID project address the problem or constraint?

You will have 30 minutes to discuss these questions. Be prepared to report on your discussion.

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## Session 4 (Day 2 Afternoon)

### Revenue Raising and Municipal Credit for Infrastructure Investment

#### Session Overview

Providing strong and reliable infrastructure networks is one of the most important contributions the public sector makes to improve the investment environment. Communities in the E&E region working to secure sufficient revenues for public improvements face numerous challenges:

- < Local governments continue to rely on central government transfers for infrastructure improvements; such transfers are often unpredictable and insufficient.
- < Many public services, such as roads and education facilities, do not generate revenue.
- < Local governments have limited ability to set tariffs or levy property taxes for capital improvement purposes.

This session looks at the difficulty of raising revenues for public infrastructure from two perspectives. From local governments' perspective, the session explores what revenues can be raised given the current authority they have vis-à-vis the central government. In addition, the session looks at the problem from the perspective of long-term fiscal and administrative legislative changes that would be required for local governments to be financially self-sufficient. Revenue-raising schemes that reflect a wide spectrum of fiscal decentralization are presented so that a varied audience can participate in the course.

Revenue sources for public infrastructure are generally derived from taxes, fees, tariffs, and government transfers—all of which are ultimately paid for by individual residents or businesses (either through a local revenue generation scheme or a central government tax that is transferred back to the local government). As more and more of these revenues are generated locally due to fiscal decentralization in the region, the local government should carefully consider the mix of revenue sources so that one user group does not pay an excessive amount for the service and so that the pricing (the cost of services) for business is competitive in comparison to other communities. Until the devolution of authority stabilizes in the E&E region, central government transfers will be the primary (if not the only) source of revenue. This fact, however, should not preclude local governments from instituting practices needed for self-sustaining and locally financed public systems.

The presentations in this session examine factors that affect the generation of private and public sector revenues for public infrastructure. Specific attention is

given to financial and project management practices, the linkage between sustainable revenues and investor confidence, and the added value of proper capital improvement planning as it relates to sustainable revenues.

### **Session Objectives**

- < To explore financial institutions' lending criteria for local governments and public utility authorities.
- < To explain the relationship between sustainable revenues and financing for capital investment, including debt financing.
- < To identify sustainable revenue strategies within the parameters of local government fiscal authority.
- < To identify factors that may impede revenue generation and to suggest approaches that may mitigate common obstacles, including increasing the fiscal autonomy of local government.





## Trainer's Notes

### **1 hour      Presentation: Raising Revenues for Public Infrastructure Investment**

*This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

- 10 min*
1. Begin by explaining that the topic under discussion is raising revenues for public infrastructure. Ask participants to think about how infrastructure improvement relates to economic development. Why are such improvements necessary? What types of infrastructure improvements are needed to bolster economic development? List their responses on the flip chart.
- 5 min*
2. When you have generated a list, turn attention to why these improvements are needed to bolster economic development. Explain that the public infrastructure and services on the list (which should include water, wastewater, urban transportation, solid waste disposal, etc.) are factors that influence business decisions of private companies wishing to relocate or expand their businesses. Follow the talking points to discuss the three reasons that capital investment is needed. Emphasize the link between the need to pay the capital back and the revenue stream of the local government. Use local examples to illustrate key points.
- 10 min*
3. Discuss the two categories of services: revenue generating and non-revenue generating. Ask participants to give examples of each. List these on a flip chart. When you have developed a list, explain that wherever possible, local governments should allocate budget funds to the non-revenue-generating entities for investment, while revenue-generating entities should be encouraged to cover full costs. Follow the talking points and discuss the elements that affect the pricing of public services; revenue-generating schemes such as fee for services, taxes and transfers; and the authority local government has or needs to raise revenues for public services.
- 10 min*
4. Then, turn attention to financing capital improvements, emphasizing the linkage between operation/maintenance costs and capital costs. Give particular attention to how financing capital improvements relates to overall revenue generation and sustainability. Follow the talking points and include in the discussion the following points:
- < Financial solvency
  - < Operating budget (operation and maintenance of systems)

- < Capital improvement planning
- < Pricing and revenue collection
- < Capital improvement expenditures and debt financing
- < Taxation authority and legal framework.

As you discuss these issues, be sure to define and give examples of each. Use local examples whenever possible.

- |               |  |
|---------------|--|
| <i>10 min</i> | 5. To continue, ask participants what people or groups of people are affected by pricing decisions. Engage them in a discussion of this issue, making sure to touch on all the groups outlined in the talking points. Then, ask participants to think about how these people affect pricing decisions and go over the questions that often come up in reviewing costs, using the talking points. |
| <i>10 min</i> | 6. Conclude by discussing the ramifications of this information for local governments. Emphasize in particular the steps that local governments should take before they can raise revenues for investment. As you show the corresponding overhead, ask participants if there are any additional recommendations they would add to this list.   |
| <i>5 min</i>  | 7. Conclude with a summary of the discussion. Remind participants that after the break they will return to engage in small-group work.   |

## **2½ hours    Group Assignment: Evaluating Revenue-Generating Options**

- |               |   |
|---------------|---|
| <i>5 min</i>  | 1. Break participants into small groups of four to six participants. Consider breaking into mixed groups so that different perspectives are represented in the small-group discussions. Distribute the handout, “Evaluating Revenue-Generating Options,” and flip chart paper on which they will post their answers.  |
| <i>10 min</i> | 2. Introduce the activity by explaining that the purpose is to determine how national and local administrative, political, and economic factors influence the viability of public and private revenue sources. Instruct groups to identify an infrastructure problem in their own country, which they will then present to all participants. The small group’s presentation should (1) state the problem, (2) describe the revenue-generating authority and capacity of the community to fund infrastructure improvements or repairs, and (3) list the revenue sources that are being considered and why. Inform participants that the concept of “capacity” includes the government’s ability to raise revenues from citizens and businesses through taxes and fees, to provide leadership for citizens and financial institutions, and to manage the financial and operating systems of services provided. Suggest that participants may want to use the pre-course |

homework information and information from the presentations to develop their problem statements. Give participants a few minutes to read the handout and ask any questions they have about the activity.

- 45 min      3. Allow groups 45 minutes to prepare their presentations. Give a reminder when groups have only 10 minutes left to complete their work. (*A break may be built into the end of this activity.*)
- 75 min      4. Reconvene the group, and ask each small group to make a report on its findings. Before the first group begins, explain that you would like to keep each presentation to 15 minutes. Such presentations often run over the desired time limit; try to keep the discussion moving. After each group's presentation, critique the group's findings, asking questions about political stability and leadership needed to sustain financial practices. Consider the elected leadership's commitment to practicing fiscal discipline in order to cover existing obligations. What experience do key department heads have in the area of corporate management? How secure is the revenue stream for the repayment of loans? What type of collateral would be offered? What administrative changes would be needed to ensure the maintenance of infrastructure? Remind the participants that the issue of administrative capacity is larger than maintenance of infrastructure. It includes administrative capacity to carry out project preparation, financial analyses, negotiations with lenders, loan monitoring, and general management of service provision. Encourage participants from other groups to ask questions of the group as well. (*The time needed will vary depending on the number of groups.*)
- 15 min      5. When all groups have had a chance to report, ask participants what they learned from the exercise. What was the most difficult part of developing the plan? Why? What elements did all of the presentations have in common? What elements would participants now add to their plans based on what others came up with, as well as the trainer's questions? The discussion should include the following key points:
- < The political and administrative structure has a profound impact on demonstrating the financial feasibility of infrastructure projects.
  - < Infrastructure financing requires that there be a corresponding relationship between the cost of service delivery and the revenues generated by the service.
  - < Eliminating or reducing utility subsidies encourages sound use of resources and fair distribution of costs.
  - < Credit institutions carefully review an organization's management of finances, operations, and maintenance of public services; these aspects are thus key to securing financing for both the local government and the utility company.



## Talking Points: Raising Revenues for Investment

General public infrastructure and services such as water, wastewater, urban transport, and solid waste disposal require capital investment. Public services throughout the E&E region are provided principally through budgetary enterprises or through private companies. Regardless of who operates the system and manages the service, and regardless of who owns the capital assets, public services require capital investment for three reasons:

- < To replace facilities that have reached the end of their useful life
- < To improve facilities serving existing users (perhaps to comply with new regulations)
- < To expand facilities to serve new users.

Sources of capital may vary, but one thing is certain—the capital has to be paid back. This results in the need for local governments to look carefully at raising additional revenues to cover new investment.

### Revenue-Generating Strategies and Pricing of Public Utilities

Optimal revenues result from setting “good pricing systems” that will raise the revenues needed to cover new investments for the provision of services and infrastructure, such as roads, hospitals, and schools. In pricing public utilities, local governments must consider two sides of the equation: revenues and expenditures. Revenue budgets may reflect different sources of funds for the operation, maintenance, and improvements of a system. Local governments in the E&E region typically use some mix of fees for services (user fees), proceeds from general or special taxes, and transfers from the central government. Local governments in different countries have varying degrees of authority related to raising revenues through each of these sources. Expenditure budgets must cover operations, maintenance, and debt retirement.

### Pricing Systems for Revenue-Generating Entities

Services in most local governments can be divided into two categories: revenue-generating and non-revenue-generating. Where possible local governments should allocate budget funds to the non-revenue-generating services (such as storm drainage) for investment. Revenue-generating entities should be encouraged to cover the full cost of service delivery.

A good pricing system arrives at prices that cover the cost of providing the public services in question. There are practical reasons for this:

- < The revenue stream from fees and charges is an identifiable and pledgeable revenue stream that can provide a sound basis for financing capital investments through borrowing. Unless the price of the service covers the full cost of providing that service, financing of investments will require the support of other funds from the budget or subsidies.
- < Pricing a commodity at its true production cost tends to ensure that society as a whole will use resources efficiently.

The pricing system should cover both operating and maintenance costs, and the system should allow for recovery of capital investment costs. The three general types of investment costs—replacement costs, improvement costs, and expansion costs—are described below:

*Replacement costs:* As a system is used, it deteriorates. In a water supply network, for example, a portion of the facility’s useful life expires with every bit of water that is pumped, treated, and consumed. Thus, a good pricing system would set prices that include the amortization of the facility as a charge to current users. Similarly, the price of using a solid waste landfill should include the eventual cost of closing the facility and restoring it to “green” condition.

*Improvement costs:* One would expect current consumers who benefit from improved water quality to pay for these charges as part of their user fees. Thus, a good pricing system should include improvement costs.

*Expansion costs:* A good pricing system should take into account the costs of expanding facilities to serve new users. These costs include not only the cost of extending lines to serve new areas, but also the cost of the portion of other capital facilities that will be made available for use in the new areas.

One way to derive these capital investment costs from users of the system is by amortizing the price of a capital asset over a period of years (according to the expected useful life of the asset) and including the amortized cost in the base rate. Amortization schedules developed for the pricing system need to be the same as those used for tax or accounting purposes.

In addition to the above costs, the pricing structure must take into account the financing cost. It costs money to borrow. In addition to repaying the principal, the borrower must pay interest and service fees. Like the capital itself, the costs of borrowing should be borne by the people who benefit; that is, the users of the system.

A good pricing system should provide incentives to meet policy objectives, which may include such factors as service quality, consistency of service, environmental protection, health, safety protection, timely response to customer service interruptions and other maintenance issues, and prompt and adequate response to customer complaints.

## **Other Revenue Sources and Uses**

The optimal revenues for public services are those generated through tariffs or user fees, such as water fees. Not all public services generate own-source revenues, however. Therefore, local governments must use general taxes or central government transfers. Revenues for new or improved road systems, for example, usually are generated through a tax levy. In addition, local governments sometimes subsidize the cost of providing a revenue-generating service so that a particular user group is not overburdened by excessive fees (such as heating for low-income citizens).

## **Taxes**

In the E&E region, the authority to raise revenues at the local government level is limited. Each country and local government must review relevant legislation in order to determine what authority it has. In the long term, if they are to have sufficient revenues for capital investments, local governments will need to have fiscal autonomy and revenue-generating authority.

In reviewing what authority it has, the local government should give consideration to the following types of taxes—each of which can be used to cover the operating, maintenance, and capital costs of public services:

- < Special revenue authorities (such as those used for toll roads in Hungary)
- < Land and building taxes (property taxes)
- < Dedicated excise or value-added tax transfers from the central government.

## **Transfers**

The major source of general revenues in most E&E countries is transfers from the central government. In addition, capital improvements have been financed by special central funds. As decentralization of authority takes hold, the amount of these special transfers will decrease.

## **Revenues and Creditworthiness**

E&E countries are gradually moving toward public and private credit markets for the purpose of funding capital improvements. Critical to success in shifting to this revenue source is the ability of the local government to demonstrate that it is a good credit risk. There are two important variables in the credit equation: the ability to sustain the revenue flow and the ability to manage the financial, operating, and capital improvement program. A poorly managed public service jeopardizes the revenue flow because the collection of fees or taxes becomes

extremely difficult. Factors that private and public lending institutions look for when considering loaning money include:<sup>3</sup>

- < Debt policies and position, including authority to incur debt and recent debt issues by local governments
- < Financial operations and fiscal policies for the past five years, as well as current budget
- < The central government's relationship with local subdivisions and changes to revenue-sharing and tax collection policies and procedures
- < Economic profile of community and development plans
- < Financial control and monitoring systems of the local government
- < Comprehensive annual financial reports
- < Public service management plans and operating procedures.

### **Participatory Decision Making**

A tremendous number of people and institutions are affected by pricing decisions, including:

- < Public service providers (private companies or budgetary enterprises)
- < Citizens of all income levels
- < Nongovernmental organizations
- < Businesses in manufacturing and service industries
- < Public-sector users, such as parks, hospitals, and schools.

Because so many parties are affected by fees and charges for public services, the ideal system affords all parties an opportunity to participate in the process by which rates and service standards are set. One way to achieve this is through public notice and open hearings, at which any interested parties can present evidence and policy arguments. A participatory mechanism offers the best chance for resolving differing priorities.

Regardless of how they are decided, user fees, the information on which they are based, and the process by which they are decided should be open to the public. This is necessary for participation by affected parties to be productive.

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<sup>3</sup> This list is a compilation from sources including Fitch International, Dr. Sylvester Murray, Cleveland State University, and the World Bank.

## Clear Guidelines

An ideal system should also include clear guidelines about the types of costs that can be included in the rate base (both what is and what is not allowed) and how costs are allocated to different functions and to different classes of customers. In the setting of prices, many challenging issues must be resolved. Here are some questions that come up in reviewing costs:

- < Who should bear costs incurred for facilities not yet generating productive capacity, such as interest during construction, progress payments to the contractor, or land and resource acquisition costs?
- < Should planning costs, such as costs for master plans, feasibility studies and environmental studies, be included in the price?
- < When are advertising costs allowable as public education, and when should they be disallowed as commercial promotion?
- < How should operating and capital costs be allocated to different classes of customers (bulk versus retail users)?
- < How should interest and debt issuance costs be allocated to different classes of customers, especially present versus future customers?
- < How should the reasonableness of rents, wages, consulting fees, travel, and other expenses be determined?
- < What depreciation rules should apply? Should they be the same as the depreciation rules for tax purposes, or different?

In addition, local governments may wish to establish guidelines about allowable returns (or profits) and how they should be calculated. Such rules or guidelines could be developed by a regulatory body (if one exists), a central government agency, individual local governments, industry associations, a task force or committee, or some other process.

If local governments become more autonomous, their revenue-generating authority and responsibility should also increase. Ideally, local governments should be able to independently issue and secure debt. To do this, they must have authority to:

- < Establish user fees and tax rates
- < Pledge or dedicate the revenue source to the repayment of debt (capital and interest)
- < Enter into contracts



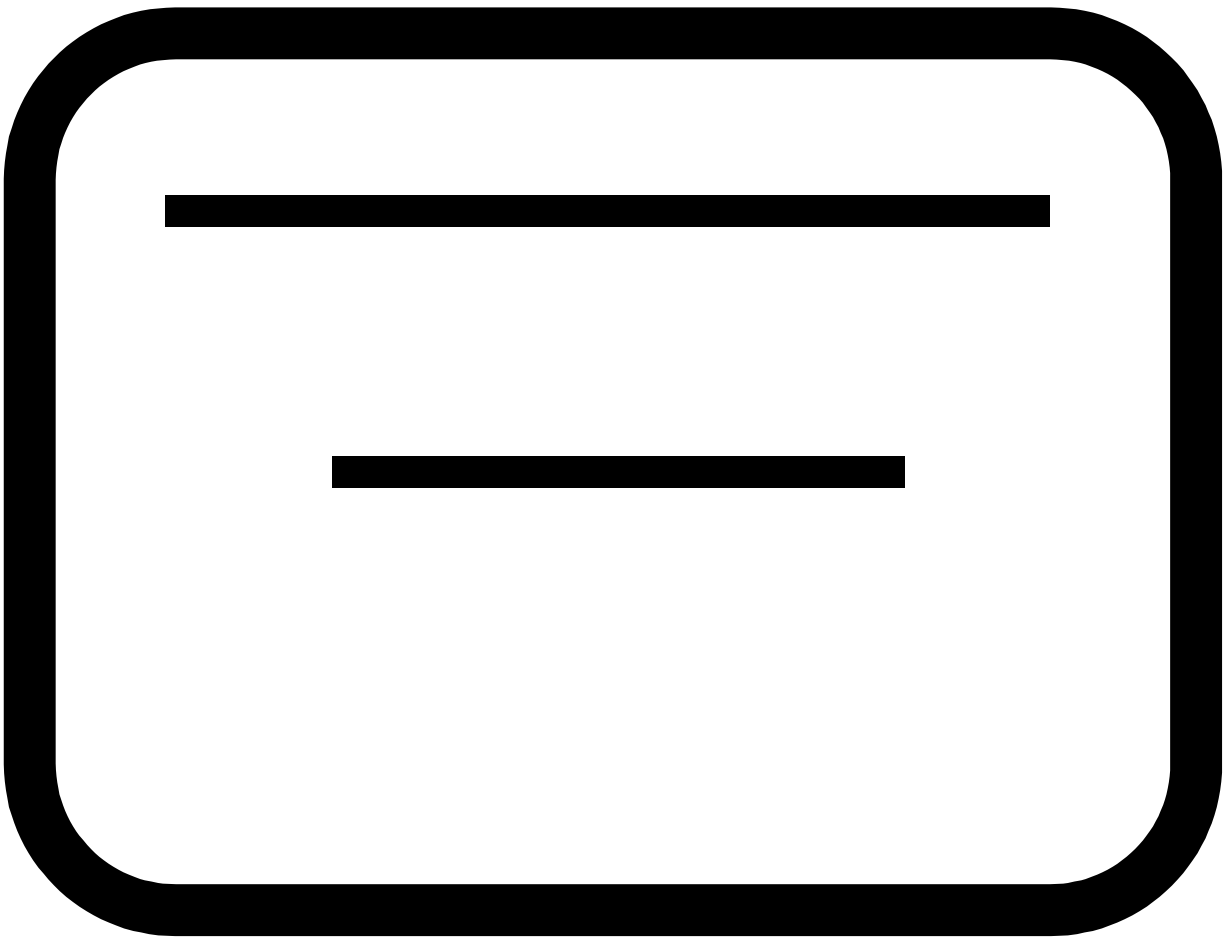
- < Own the public asset (i.e., sewer and water treatment plants and collection/distribution systems)
- < Pledge the asset as collateral (for certain types of revenue mortgage bonds).

### **Steps That Local Government Must Take**

Before revenues can be raised for investment, local governments should:

1. Set clear strategies on how both revenue-generating and non-revenue-generating entities should be allowed to set prices to enable investments to be implemented.
2. Increase the capacity of human capital of the service organizations to better manage, operate, and develop the services they provide. Implementing good pricing systems requires good professionals who use the system to maximum advantage
3. Develop good project proposals to attract finance. One of the major weaknesses in E&E has been the lack of capacity in the local consultancy market to develop project proposals of sufficient standard to attract finance. Local governments must hire high-caliber consultants to develop project proposals.
4. Implement good pricing systems that are transparent and inclusive of the community.

# Overheads



# Why Raise Revenues?

- < To invest capital in public infrastructure and services, which is necessary to replace facilities that have reached the end of their useful life, improve facilities serving existing users, and expand facilities to serve new users
- < To pay back the capital

# Setting Good Pricing Systems

- < Results in identifiable and pledgeable revenue streams, which can provide a sound basis for financing capital investments
- < Ensures that society as a whole will use resources efficiently

# What Should a Good Pricing System Cover?

- < Operating and maintenance costs
- < Capital costs for replacement
- < Capital costs for improvement of the facility
- < Capital costs for expansion of the facility
- < Financing costs

# Service Standards

A good pricing system should provide incentives to meet policy objectives about service standards, including:

- < Service quality
- < Consistency of service
- < Environmental protection
- < Health
- < Safety protection
- < Timely response to customer service interruptions and other maintenance issues
- < Prompt and adequate response to customer complaints

## **Guiding Principles for Revenue-Generating Strategies**

- < New revenues should not unfairly burden those least able to pay
- < Where possible, the use of the revenues should correspond to the revenue-generating base (e.g., water tariffs pay for operation, maintenance, and capital costs of the water distribution system)
- < Subsidies for services should only be used when a public purpose is realized (e.g., increased access to employment)

# Characteristics of Revenue-Generating Tax Schemes

*Special Revenue Authorities:* Revenue base corresponds to the service users

Revenue flow is dedicated to operation,  
maintenance, and debt retirement of services

Scheme is attractive to lenders

*General Property Tax:*

Revenue for non-revenue-generating services

Can be structured so the value of the revenue  
base increases with increased value of property

Limited use in E&E region

*Excise Tax:*

Tax that can be dedicated for a specific use

Raises revenues from non-residents (e.g., hotel  
room tax)

Generates revenues from the added value of a  
consumable product



# Financial Lender Criteria

*Intergovernmental Relations:* sustainable transfers, tax authority, administrative authority, and borrowing regulations

*Administrative Systems:* management structure and labor relations

*Economic Conditions:* employment base, changes in economic indicators, resource availability, and a profile of citizens' social and economic capacity

*Fiscal Performance:* financial management systems, tariff and tax burden, and capital plans

*Financial Position:* existing debt, existing assets and liabilities, and accounting practices

# Participatory Decision Making

Because so many parties are affected by fees and charges for services, a participatory mechanism for setting rates and service standards offers the best chance for resolving differing priorities.

Those affected by pricing decisions include:

- < Public service providers (private companies or budgetary enterprises)
- < Citizens of all income levels
- < Nongovernmental organizations
- < Businesses in manufacturing and service industries
- < Public-sector users, such as parks, hospitals, and schools.

# Clear Guidelines

Pricing systems need clear guidelines about types of costs that can be included in the rate base and how costs should be allocated to different classes of customers. When reviewing costs consider also:

- < Who should bear costs incurred for facilities not yet generating productive capacity?
- < Should planning costs, such as costs for master plans, feasibility studies, and environmental studies, be included in the price?
- < How should interest and debt issuance costs be allocated to different classes of customers, especially present versus future customers?
- < What depreciation rules should apply? Should they be the same as those for tax purposes?
- < What rules should be written regarding the allowable return (or profit), and how it is to be calculated?

# Transparency

Fees and charges, the information on which they are based, and the process by which they are decided should be open to the public. This is necessary for participation by affected parties to be productive.

# **What Steps Must Local Government Take To Raise Revenues?**

- < Set clear strategies on how revenue-generating and non-revenue-generating entities should be allowed to set prices
- < Increase the capacity of human capital of the service organizations to better manage, operate, and develop the services they provide
- < Develop good project proposals to attract finance
- < Implement good pricing systems that are transparent and inclusive of the community



## Handout: Evaluating Revenue-Generating Options

You are to prepare a presentation for the group regarding a capital investment or infrastructure improvement project in your country, following the instructions below.

### Instructions

Working as a group:

1. Identify a capital investment project that is critical for attracting private investment.
2. Develop a financial strategy that will address the problem. Consider the following issues:
  - < The revenue-generating authority local governments should have to address the problem
  - < The types of taxes, fees, and tariffs that are most appropriate for the public service and capital improvements
  - < Citizens' ability to pay
  - < The collection rate at the local government level.
3. Describe changes that would be needed to allow the implementation of the strategy in your local government.

Use a flip chart to outline your strategy. You have 45 minutes to complete this exercise and will be asked to report on your strategy at that time.

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## **Session 5 (Day 3 Morning)**

### **Maximizing the Value of Local Government Assets and Incentive Programs**

#### **Session Overview**

The social and political pressure on local government officials to attract business can lead to rash, often detrimental decisions. This session explores critical factors that local officials should consider when developing an incentive program and the subsequent cost and impact of such a program. The presentation described here may be followed by short case studies on two topics: (1) land development, which should show how land use and infrastructure planning increases the attractiveness of land; and (2) infrastructure development, which should offer examples of how local communities maximize the value of their assets. Practitioners who can offer insights into the cases are the best presenters for these case studies.

#### **Session Objectives**

- To demonstrate how local governments, through policies, and programs, strategically use their assets and power to improve their competitive positions.
- To identify benefits and liabilities of various financial incentive programs—including tax incentives, public-private partnerships, and the use or sale of public property—from the viewpoint of an existing business, a prospective business, and the local government.
- To illustrate what factors should be considered in calculating the net benefit of various incentives offered by a local government.
- To determine the most effective use of community assets and financial incentive programs.
- To define the expected outcome of a local government asset and incentive strategy.



## Trainer's Notes

**2 hours**

### **Presentation: Maximizing the Value of Local Government Assets and Incentive Programs**

*This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

*5 min*

1. Begin by welcoming the group and reviewing what took place at yesterday's session. Ask participants if they have any questions about what they learned yesterday.

*10 min*

2. Introduce the session by explaining that you will address how local governments can strategically use financial incentives and local assets to attract new business. The first step is to gain a better understanding of firms, the industrial sector, and markets. Explain that this session will focus on the local government's role in making the community attractive to business, including offering appropriate incentive programs. Follow the first section of the talking points on "Understanding Comparative Markets" to introduce the topic. (Avoid giving away the answers in Step 3 below, which is designed to help participants think independently about the issue.)

*10 min*

3. Ask participants to put themselves in the place of a business owner who is considering relocating. What factors might attract him or her to your community? What are your community's strategic opportunities? List responses on the flip chart. Answers might include:

Access to a well-qualified or inexpensive labor force

Access to major roadways or transportation routes

Good quality of life

Cheap land

Accessible land

Reasonable tax rates and business regulations

Access to suppliers or other needed services

Reliable and well maintained public infrastructure.



- |                 |  |
|-----------------|--|
| <i>10 min</i>   | 4. When participants have generated a list, ask which of the aspects on the flip chart can be influenced by the local government. What other groups within the community might be able to influence the factors listed?  |
| <i>45 min</i>   | 5. Explain that it is the role of the public sector to facilitate and promote the creation of jobs and wealth and to ensure that this is done in a way that serves both the short- and long-term interests of the community, not just one company, group of people within the community, or sector of the economy. Continue by introducing the concept of incentives, explaining what incentives are to do. Follow the overheads and the “Principles for Developing an Incentive Strategy” section of the talking points. Include examples from the country in which the training is conducted, wherever possible.   |
| <i>30 min</i>   | 6. As you turn attention to the benefits of business attraction, ask, “what advantages does the location of a new business bring to the community?” List responses on the flip chart. After participants have generated a list, add any others from the “Economic Impact” section of the talking points. Then, continue to drive home the point by focusing on one or more specific examples to illustrate how a dollar spent can reap many dollars in future rewards.   |
| <i>10 min</i>   | <p>7. Conclude with a summary of the discussion, focusing particular attention on the various incentives that a local government can use to attract new business and encourage the expansion of existing businesses. Make sure to reiterate the following key concepts:</p> <p style="padding-left: 40px;">Local governments should not be afraid to negotiate financial incentive packages with private companies.</p> <p style="padding-left: 40px;">Financial incentive packages should be implemented incrementally to ensure that the company keeps its investment commitments to the community.</p> <p style="padding-left: 40px;">A menu of financial incentives is required to enable a customized program to be developed for companies in various business categories (primary, secondary, and tertiary) and in different stages of development.</p> <p style="padding-left: 40px;">Other industries in the community, such as an electric utility company, may offer financial incentives.</p> <p style="padding-left: 40px;">The long- and short-term net benefit of a financial incentive program or investment in community assets should be calculated.</p> |
| <b>1½ hours</b> | <b>Group Assignment: Applying the Principles: Local Government Assets and Incentive Programs</b>   |
| <i>5 min</i>    | 1. Break participants six small groups of equal size. (Consider having random group assignments to allow people to work with different participants than previously.)  |

- 5 min
2. Distribute the handout, “Maximizing the Benefit of Community Assets and Financial Incentive Programs.” Introduce the activity by explaining that local governments can use different types of strategies to generate economic development opportunities in a community. The three types involved in this exercise are (1) expansion of manufacturing companies, (2) growth of small and medium-sized commercial enterprises, and (3) new business start-ups. Assign each group one of these three focuses, so that two groups are working on each topic. Ask participants to review the instructions before beginning. Allow them a few minutes to read the handout, and then ask if there are any questions. Explain that participants will have 30 minutes to develop a presentation that addresses the five issues at the bottom of the handout. Distribute newsprint and markers to each group so that the groups can take notes for the presentation.
- 30 min
3. Allow them 30 minutes to prepare their presentations.
- 40 min
4. Reconvene the group and ask a spokesperson from each group to report on its discussion. After each report, ask questions about who has the authority to implement the strategy; which types of market (primary, secondary, or tertiary) the project supports and how it supports each; how the community would benefit from the strategy; what sanctions the local government can exercise if a firm does not keep its commitments; and other questions relative to the five principles discussed in Session 1 and the presentation in this session.
- 10 min
5. When all groups have finished, ask them what they learned through this exercise. Their responses should include the elements of a win-win incentive package, how to determine the risk and develop protective clauses, and the need to understand the real expectations of industrial firms and that one can negotiate the terms of the incentive package. Consider using a real-life example of each of the three business types to illustrate key points, either in a presentation or background reading distributed at the end of this exercise. *(You will need more time if you add real examples.)*



## Talking Points: Strategic Use of Local Resources for Economic Development

### Understanding Comparative Markets

Economic development strategies should reflect the existing local economy and institutional resources. This means focusing on all sectors of the economy and all types of industry, including:

private, nongovernmental, and local government sectors

primary, secondary, and tertiary industries of all types and stages.

The business categories are:

**Primary:** Firms that produce a final product for consumption outside the community (e.g., automobiles, household goods, computer hardware)

**Secondary:** Firms that provide parts or services directly to primary industries (e.g., automobile parts plant, accounting firms, design firms, financial services firms)

**Tertiary:** Organizations that provide retail and personal services (e.g., clothing stores, golf courses, hair salons).

The profit/product life cycles or stages of business development are:

1. Start-up
2. Expansion
3. Maintenance
4. Decline
5. Death.

Cities must determine what the mix of industries is and where the majority of the most competitive industries are in the profit/product life cycle. Incentive programs can address all the above firms, as long as the planning process takes into account where the community's strongest assets lie.

Government and nongovernmental organizations may maximize the value of their assets through:

Laws and regulations

Training and education

Political and community leadership

Incentives

Infrastructure.

### **Principles for Developing an Incentive Strategy**

Incentives should increase the comparative advantages of a region without interfering with market forces that dictate supply and demand.

Simple principles to follow when developing a strategy for the use of community resources are:

1. Always negotiate the incentive package (both the kind and the amount of incentives):

Businesses do their own research and know the region's advantages and limitations; they know what they want rectified.

Regions should operate with a fixed menu of elements and a policy to extract maximum advantage in negotiating incentives.

2. Combine multiple sources and types of incentives. Use both public and private resources.
3. Stage the majority of the incentive package elements over time periods that coincide with the flow of benefits to the region.
4. Include "clawback" provisions so that the community is able to retrieve its resources if the business does not meet its obligations.
5. Focus incentives on public or mixed infrastructure and services.
6. Consider opportunity costs.

Reserve the use of incentives only for firms that:

Agree to make high-impact investments in support of strategic opportunities

Would not otherwise locate in the community (e.g., in needy locations that have historically been unattractive to private investors)

Guarantee exceptional performance where they operate.

Possible incentives include new roads, bridges, sewer and water lines, or railway links; office space; land for a communications facility; employee training; or airport improvements. These improvements may be financed by the local or the national government. Other entities (e.g., a utility company or financial institution) may also be able to assist in projects, particularly if they benefit.

Other examples include:

Leasing land at a reasonably low cost, with a purchasing option

Changing tax laws to allow a company to pay for essential services (such as water and sewer service) with some of its property taxes

Including an income tax credit for employees

Providing job training in technical skills, leadership, team building, management techniques, etc., or providing tools, manuals, or classroom facilities

Supporting the company's efforts to hire employees (e.g., advertising and screening initiatives\_

Providing rate structures for utilities owned by the local government that are advantageous to business (e.g., a standard industrial power rate and an off-peak rate).

## **Economic Impact**

A decision of a major company to locate a manufacturing facility can have implications for the competitiveness of the region's economic base and provide substantial opportunities for diverse economic growth.

Job creation

Increase in tax base (income, sales, and property taxes)

Wealth created in both manufacturing and service sectors of the economy

Diversification of the region's economy

Increased national and international competitiveness

Greater resistance to business cycles and loss of investment

Higher wages, better working conditions, and improved career advantages for citizens

Additional future opportunities for economic growth

Increased level of national and international visibility.

In addition to direct benefits, any economic impact analysis of a new business location must include the "ripple" or multiplier effect. For example, a manufacturing facility will cause new suppliers to locate in the area. The analysis must also take into consideration the indirect impact of secondary economic activity in

the service sector, as corporate and employee dollars are cycled through the local economy. These new dollars pay for business and professional services, construction, retail and wholesale trade, and other local products and services.

### **Summary of Incentives**

Incentives must be authorized by legislation and uniformly applied to benefit all companies that meet the qualifications of the specific incentive, whether these are companies that are new to the area or part of the existing business base. Most incentives should be performance based. They may include:

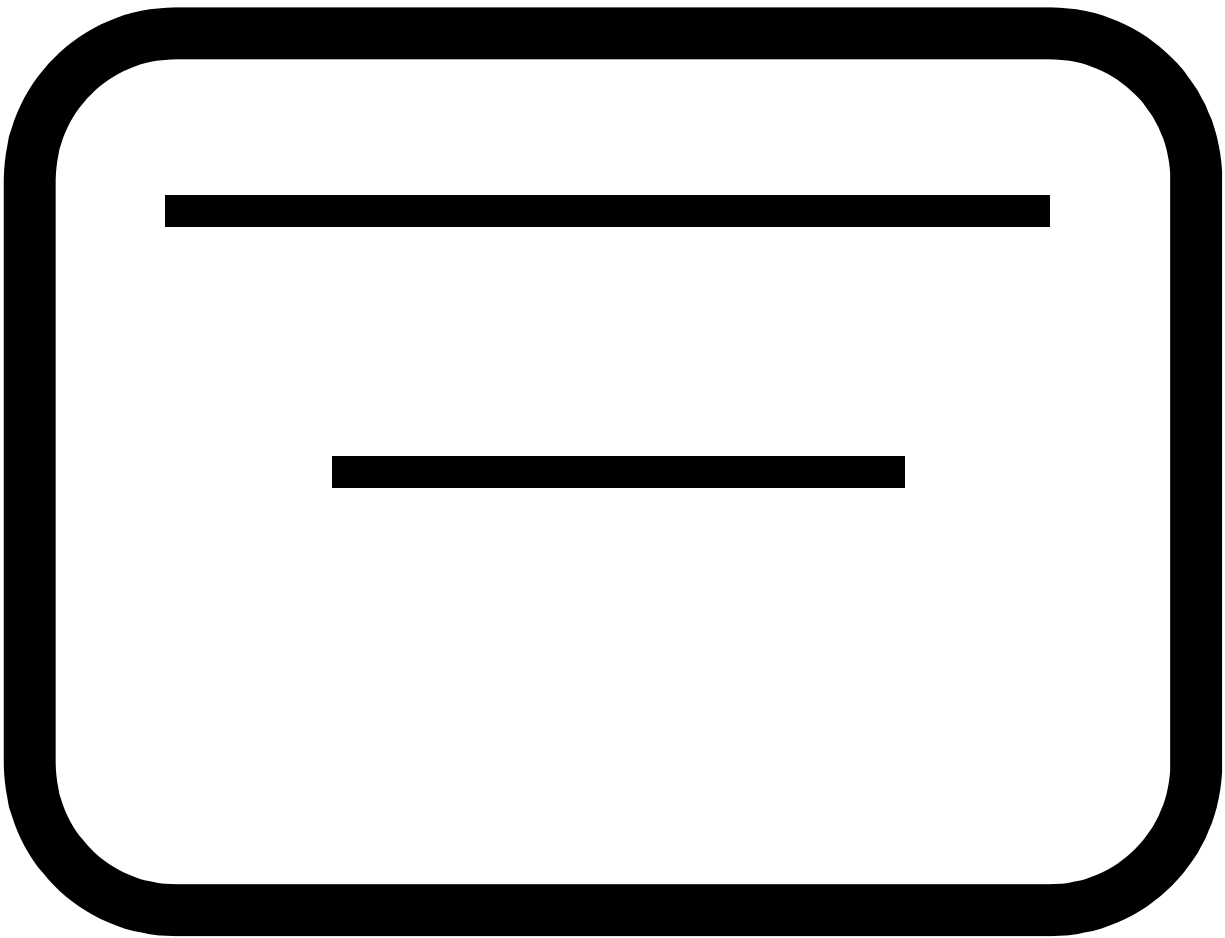
Land acquisition or assembly and favorable credit terms

Infrastructure development

Customized job training

Tax incentives.

# Overheads



# **Economic Policy Foundations First, Business Incentives Later**

Ensure that basic policy foundations are present or being put in place first:

- < Adequately prepared, motivated workforce
- < Appropriate levels and types of infrastructure
- < Fair and equitable tax system and practices
- < Reasonable, enforceable business regulations



# Strategically Deploy All Tactical Incentives

- < Embed incentive decision-support methods within strategic plan and policy
- < Seize best strategic opportunities afforded by high-impact sectors
- < Design total incentive strategy around national funds for special projects
- < Ensure greatest gains by tactical targeting of sectors and locations
- < Understand all categories of incentives and how each works
- < Conserve incentive funds and preserve fairness through public-private cost-sharing
- < Adopt task force technical and policy recommendations, guidelines, and methods

# Possible Strategic Opportunities

- < Globally competitive economy
- < High generation rate and wide diffusion of commercial innovations
- < Increased supplier base and stronger multiplier impacts
- < Higher wages, better working conditions, improved career advantages
- < Less environmental stress, reduced waste flow, cleaner workplaces
- < Greater resistance to business cycles and loss of investment
- < More evenly balanced pattern of rural and urban job locations

# **Firms *May* Merit Incentives if Strategically Useful**

Reserve use of incentives only for firms that:

- < Agree to make high-impact investments in support of strategic opportunities
- < Would not otherwise locate in the community (e.g., in needy locations historically unattractive to private investors)
- < Guarantee exceptional performance where they operate

# What Are Business Incentives Anyway?

- < Incentives should be extended in return for tangible and useful public purposes
- < Incentives should alter firm's decisions in ways that benefit the local economy
- < Indiscriminate use (e.g., regional quotas) dilutes value and effectiveness of incentives
- < Business incentives should provide economic benefits to firms in multiple ways
- < Incentives provide valuable benefits to firms through very different mechanisms:
  - They increase the value of shareholder assets (direct subsidies)
  - They supplement or improve private capital with local infrastructure and amenities (public services or facilities)
  - They raise the efficiency of regional input factors available (productivity of land, labor, capital, technology)
  - They expand statewide systems and improve the effectiveness of core infrastructure (telecommunications, transportation facilities, etc.)

# Valuing the Costs of Strategic Benefits

All incentives should be considered according to joint public-private investment decision criteria.

The appropriate amount of total costs borne and the public share of these costs depend upon the strategic value of the:

- < Potential impact of the industry type
- < Exceptional performance expected
- < Location firm agrees to occupy
- < Estimated payroll, environmental, and fiscal impacts.



## **Handout: Maximizing the Benefit of Community Assets and Financial Incentive Programs**

Economic development strategies can lead to different outcomes. While all strategies eventually should lead to the creation of employment and increase wealth, the types of business that generate these outcomes may be very different.

Three types of business and economic development strategies are presented below:

1. Expansion of manufacturing companies: The strategy is to make existing firms (both state-owned and private companies) stronger and more profitable. Focus on existing firms that produce manufactured goods, such as automobile parts or computer hardware.
2. Growth of small and medium-sized commercial enterprises: The strategy is to stimulate the investment environment for enterprises that support large production firms. Businesses in this category may include marketing, printing, office and furniture design, or financial service companies.
3. New business start-ups: The strategy is to attract firms that use new technology for production. Firms in this category may include information services (e.g., credit card) companies or computer software firms.

Your group has been assigned one of the above business types. Based on the presentations you have heard, explain how you would use economic development tools to generate the results identified. Each group presentation should:

1. Consider the type of business (primary, secondary, and tertiary), the potential market, and the stage of the profit/product life cycle that the firm is in.
2. Decide how land could be used as an asset to achieve the objective for the group. (e.g., What would you have to do to increase the value or attractiveness of available land?)
3. Identify the financial incentive scheme that would be most attractive to firms or business investors to achieve the objective.
4. Explain the implementation costs of your strategy to the community.
5. List anticipated benefits of your strategy to the community.

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## **Session 6 (Day 3 Afternoon)**

### **Developing the Local Labor Force<sup>4</sup>**

#### **Session Overview**

In recent years developing the skills of the labor force has been added as a key component of economic development. The advent of new technologies over the last 20 years has shifted the emphasis of local economic development programs from underwriting the cost of capital intensive production to programs that build the labor force skill banks. Competitive nations have a match between the skills of their labor force and the skill requirements of industry.

Labor market reform efforts in the E&E region can build on the educational legacy built during the socialist regime. To do this, however, it will be important to disaggregate the characteristics of both the existing labor force and the emerging markets in regions. Once this is completed, local governments can partner with other tiers of government, universities, vocational training centers, and businesses to identify the appropriate labor force enhancement interventions such training programs and counseling centers.

#### **Session Objectives**

Define the relationship between labor force enhancement and local economic development programs.

Understand the impact of the E&E economic structural transition on regional labor forces.

Identify practical approaches that assist in defining labor force intervention programs.

Provide examples of successful programs in the E&E region.

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<sup>4</sup> Session 6 is designed to offer several options. The session can cover the issue of human resource capacity building, as presented. Alternatively, trainers may decide on a different topic during this time period, such as more in-depth presentations on municipal credit and debt capacity. If a three-day course is offered, Session 9 should be substituted for Session 6 during this time period.



## Trainer's Notes

### **1¼ hours    Presentation: Developing the Local Labor Force**

*This presentation is a plenary with open discussion and analysis. This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.*

- 15 min*
1. Begin by defining the topic and relating it to the five principles of local economic development introduced in Session 1. In particular participants should focus on principle number 5, "Access to employment opportunities improves the overall wealth of a community." Ask participants to think about the problems facing workers in their region. List responses on the flip chart. Some of the major challenges facing workers in the region include downsizing of old enterprises, lack of skills in using new technology, inappropriate work habits, and insufficient availability of high wage employment.
- 50 min*
2. Once you have generated a list, use the participants' responses as a springboard to introduce the guest speaker. Follow the talking points to discuss how local governments and other community institutions must work together to develop appropriate responses to the changing employment conditions. Emphasize throughout the specific roles that national government, educational institutions, labor unions, and the local government have in this effort. Use specific examples to illustrate how these institutions work together to complete the analysis of the region's labor force and businesses and how the results are integrated into a local economic development program.
- 10 min*
3. Ask if there are any questions before continuing with the case study presentation.

### **45 min    Case Study: Creating a Local Labor Force Enhancement Program<sup>5</sup>**

*The presentation from the case study speaker is meant to apply the concepts introduced in the presentation. The speaker should clearly identify the steps taken to create a comprehensive program. The case study presentation should also highlight the results of the program.*

- 30 min*
1. Introduce the guest speaker, who will describe a comprehensive labor force enhancement program that his or her community created. Allow the speaker

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<sup>5</sup> Labor force development programs are conducted in many U.S. cities in Michigan, Ohio, and Pennsylvania. The cities of Detroit, Cleveland, and Pittsburgh could be used as case studies.



30 minutes for his or her presentation. The main points that the speaker should address in the case study are as follow:

Employment conditions before the program began. What industrial sector provided most of the positions, what type of product or service was delivered, and what businesses are most likely to be interested in investing based on the comparative advantage of the region.

What type of labor force skill analysis was conducted (if any) and who completed it.

What types of labor force reform programs were created.

The institutions and government agencies that participated in the overall program design and implementation.

What impact the program has had on employment conditions.

*15 min*

2. Ask the participants if there are any questions regarding the case study.

**1½ hours**

**Group Assignment: Developing the Framework for a Labor Force Analytical Tool**

1. Break participants into small groups that correspond with subregional or country boundaries.

*10 min*

2. Explain that the groups are to work together to develop the framework for a labor force analytical tool and identify resources that would be necessary to conduct the analysis and develop programs. Each group should list the results they would like to achieve from the programs.

*45 min*

3. Ask if there are any questions. Allow groups 45 minutes to complete their work. Remind them when there are five minutes left.

*35 min*

4. After the task has been completed, each group should report on the analysis they conducted and the main points that they observed about creating a labor force enhancement program. The general speaker and the case study presenter should critique the group reports. The main points that should be identified include:

The relationship between labor force enhancement programs, economic development, and the economic conditions of the region

The importance of analyzing the local labor conditions when developing labor force enhancement programs

The importance of involving multiple institutions and the role of the institutions

The expected results of creating a labor force enhancement program.



## Talking Points: Developing the Local Labor Force

Since the early 1980s, labor force skills have been of major importance to a nation's economic competitiveness. One reason for this is the fact that new technology has heightened the crucial role labor now plays in industrial productivity. For industries to be competitive in the world market (either as producers of final products or as firms that provide intermediate inputs), their employees must have skills that significantly add value to the final product or represent a labor force that is willing to work for reduced wages.

As the E&E region continues its transition from a command economy to a market economy, the role the labor force plays in creating a good business climate takes on new importance. Some factors that contribute to the importance of emphasizing training and development of the region's labor force are:

Availability of low-wage, low-skill labor in Asia

Lack of experience of the E&E labor force in meeting customers' demands in a free market economy

Obsolete management practices and equipment used in state-run enterprises

Global movement toward a more flexible industry-labor market structure

Elimination of state subsidies for transportation of materials and products, thus adding cost to products in E&E

Changing technology used for production, which requires new skills.

For countries in the E&E region to address the impact of some or all of these factors, local governments and community groups interested in economic development must take steps to develop an accurate profile of labor force demand. Elements of the profile should correspond to the stages of business development and the business category. The following matrix provides an example of the relationship of these factors to labor force enhancement programs.

**Labor Force Skill Demand Analysis Matrix**

Stages of Development \ Business Category	Primary Industries/ Manufacturing	Primary Industries/ Service or Information	Secondary Industries	Tertiary/ Personal Services
	Primary Industries/ Manufacturing	Primary Industries/ Service or Information	Secondary Industries	Tertiary/ Personal Services
Startup	High	High	High	High/Medium
Expanding	High	High	High/Medium	Medium
Maintaining	Medium/Low	High	High/Medium/Low	Medium/Low
Declining	Low	Low	Medium/Low	Low
Dying	Low	Low	Low	Low

Note: High, medium, and low refer to the typical requirements for labor force skills.

Once a community has determined the labor skill match or mismatch, and assessed the types of industries, it can make more informed decisions about the type of labor force enhancement programs it needs.

The difficulty in developing programs for labor force enhancement arises from the fact that labor is mobile. While enhancement of physical assets and financial incentive programs (as described in Session 5) can be fixed within the boundaries of one community, people will travel to neighboring communities for work. This is not a cultural tradition of people in E&E countries; however, data suggest that labor is becoming more mobile, especially workers who are highly educated and trained.

Because labor is mobile, resources for programs must reflect regional rather than municipal boundaries. It is thus important for community leaders to develop institutional relationships with national government offices such as the Ministry of Labor, national educational and training organizations, and labor unions. Further, it is necessary to develop strategic partnerships with regional and local educational, training, and employment organizations that can participate in service delivery.

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## **Session 7 (Day 4 All Day)**

### **Local Government Sector, Private Sector, NGO Sector**

#### **Session Overview**

The fourth day of the course connects the concepts that participants have learned to real situations through a field practicum. The field practicum provides an opportunity for participants to get out of the classroom and explore local economic development in further depth. Field opportunities in the original course included meeting with local government officials, meeting with the directors of a nongovernmental organization (NGO) focused on economic development, and visiting with private firms.

By the end of the day, participants should be able to link the concepts presented in the course thus far with the real-life issues discussed during the field practicum. A wrap-up session is critical to drawing these linkages.

In other versions of this course, if a field practicum is considered useful, trainers should think carefully about the specific objectives that would be served, as well as the types of institutions most useful to visit. See additional tips for planning and preparing for site visits in the Course Overview.

Because the original course did not focus on a real-life situation or real problem, the field practicum was used as a means of linking theory to practice by demonstrating successful application of principles. In a seminar designed around an economic development project, a field practicum could probably be omitted.

#### **Session Objectives**

To learn, in further depth, how institutions in one community can affect the community's economic conditions.

To have community residents and representatives directly address the particular issues and questions that participants have at this stage in the course.



## Trainer's Notes

### **2½ hours    Site Visit Preparation and Presentations**

*During this session, participants hear from one of three presenters, each focusing on a different sector of the community (the local government, business, or non-governmental sector). The purpose of the morning session is to provide participants with an opportunity to prepare for afternoon site visits.*

*Prior to the session, participants should sign up for the site they would like to visit. They should be given a choice among the options that have been arranged. To ensure that there is a good mix at each of the three sites, ask for a first and second choice.*

*Presenters should discuss what the problems or economic conditions were like before any special emphasis was placed on economic development. They should state clearly how the actions their organization took resulted in new investment by private firms (either existing firms or firms that started up). The nature of their working relationship with the other sectors should also be included in their presentations.*

- |               |  |
|---------------|--|
| <i>5 min</i>  | 1. Begin the day with an overview of the agenda and a brief discussion of the expectations and objectives of the field practicum. Emphasize that participants will get the most out of the site visits if they have thought about what they have learned thus far and are prepared to connect what they see at the sites to these concepts. They should thus be prepared to ask questions.   |
| <i>30 min</i> | 2. Divide the group into three groups according to which site they will be visiting in the afternoon. Have the members of each group meet to discuss their expectations and to list the key questions that they feel could be addressed during the site visit. These might be questions that participants had prior to the course, as well as those that have arisen as they have delved into the subject matter. Suggest that each group select a spokesperson who can consolidate the group's issues into one list of points they want to make sure are covered. Allow groups 25 minutes to develop the list of questions or issues. |
| <i>10 min</i> | 3. Reconvene the whole group. Have the mayor or other city official welcome the group and give a brief description of the role that he or she has played in arranging for the panel discussions and site visits. This will help set the stage for the learning that is about to take place.  |
| <i>5 min</i>  | 4. Introduce the three presenters. Briefly describe the programs that they will discuss.   |

- |               |  |
|---------------|--|
| <i>90 min</i> | 5. Allow panelists to make their presentations, telling the story of the actions they and their organization have taken to improve the economic base of their community. Presenters should provide concrete examples of how their actions yielded benefits and of how they have overcome obstacles. They should also focus on the partnerships among the three sectors, and how working together has furthered their efforts. Encourage questions from the group after each presentation. Each presentation should be limited to half an hour (including questions from the audience). |
| <i>10 min</i> | 6. Conclude with a summary of the discussion, emphasizing how the presentations relate to what has been learned in the course.   |
| <i>5 min</i>  | 7. When all presenters have finished and answered questions from the audience, explain that the afternoon session will take participants to a location where they can witness what the panelists have discussed. Briefly discuss the logistics of this session.  |

### **3 hours      Site Visits and Small-Group Discussions**

- |               |  |
|---------------|--|
| <i>5 min</i>  | 1. Remind the participants of the questions they prepared in the morning to assist their group analyze the role of each of the three sectors. Ask if there are any points they want clarified from the morning.  |
| <i>90 min</i> | 2. Divide into three groups, according to the sector participants have chosen to visit. In the original training course, site visits took place at a business incubator and re-training center, an industrial park, and an NGO that provided rehabilitation training to disabled people. Encourage participants to ask questions of the people they meet at the site.  |
| <i>30 min</i> | 3. After the site visit, ask participants to meet in their small groups. Explain that you would like everyone to learn about all three sectors by having groups share with one another what they have learned. Each group is to identify the key things they learned at the site visit, focusing particular attention on how these might be applicable to their own situations or communities. Explain that they will have 30 minutes to discuss what they have learned. |
| <i>45 min</i> | 4. Reconvene the whole group. Ask each small group to report on its discussion, focusing particular attention on what they learned at their site visit and how they plan to apply what they have learned. After each group's presentation, encourage questions from other participants.  |
| <i>10 min</i> | 5. Conclude the day's session with an overview of the discussions that have taken place. Summarize the day's reports. Demonstrate how the findings in each of the group reports link to some key aspect of the theoretical part of the course. Highlight any comments made regarding cooperation between the three sectors.  |

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## **Session 8 (Day 5 Morning)**

### **Economic Development Policy and Organizations**

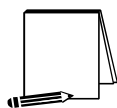
#### **Session Overview**

In today's world, local economic development policies and programs must respond to policies and programs at the international, national and regional levels. During this session, participants will explore what institutional support is necessary to sustain local economic development (LED) programs.

#### **Session Objectives**

- To identify the role economic development organizations have in improving economic conditions at different levels of government.
- To explore the respective functions of economic development organizations at each level.
- To provide examples of economic development organizations at various levels of government.





## Trainer's Notes

**3 hours**

### **Plenary Discussion: Understanding the Objectives of Economic Development Agencies and Their Relationship with Local Economic Development Programs**

*This session should begin with a presentation on the objectives at four different levels—local, regional, national, and supranational. Through panel case studies, address the various functions carried about by different types of organizations and discuss why some functions more effectively improve the local economy if implemented at the regional, national, or supranational level.*

*10 min*

1. Introduce the topic by asking participants about their knowledge of and experiences with external (regional, national, and supranational) organizations. Suggest that they think beyond economic development to reflect on an experience that was affected by a national or international event. This may include such experiences as addressing high unemployment created by more open trade policy in a country or the opportunity to work with other community organizations in an effort to save a major manufacturing firm in their community. Ask, “Do people in your community link their employment opportunities with decisions made by higher levels of government or international organizations?” “Have you ever worked collaboratively with other organizations or institutions in your community to solve a community problem?” “What did you learn from this experience?”

*10 min*

2. Use responses as a springboard to the morning’s discussion on the relationship between regional, national, and supranational institutions and LED programs and organizations. Following the talking points, emphasize that there are many benefits of working with other organizations. Point out that too often adjacent communities compete with one another to attract new businesses, only to lose the business to a different area entirely—one that perhaps worked better to market the entire region. Give an example or two, if appropriate.

*60 min*

3. Introduce the presentation by explaining why it addresses regional, national, and international organizations and their relationship to local economic development. Follow the talking points to discuss the functions and levels of economic development organizations.

*75 min*

4. After the first part of the session is over, introduce each of the panelists, with a sentence or two about the perspective they will share. Case study presentations from panelists should reflect different types of local economic development organizations as identified in the talking points. Allow each presenter 15 minutes to discuss the methods they used to determine what functions or activities to provide and how they capitalized on national and regional

economic development programs. After each presentation, encourage questions from the audience.

*25 min*

5. Conclude the discussion with an overview of the key learnings from the presentations. Discuss common themes. Participants should understand the nature of supranational organizations, the benefits they offer a particular country or region, and the steps necessary to come into compliance. They should be challenged to think about their own community and determine what person or institution could provide leadership, what are the needs of the community, what are its strengths and what community groups should be represented in an economic development organization. For example, bankers, industrialists, educators, and union leaders are just a few stakeholders who should be included.



## **Talking Points: Understanding the Objectives of Economic Development Agencies and Their Relationship with Local Economic Development Programs**

There is a mismatch between economic boundaries and the political boundaries of local government units. People and commerce flow across arbitrarily established political boundaries, respecting the imaginary geographic boundaries defined by the opportunity cost of supply and demand. Corporate success and regional success, jobs and prosperity are all intertwined.<sup>6</sup> Many countries have economic development organizations that are able to address the complexity of local, regional, and national economic systems and industrial complexes.

### **Purpose and Functions of Economic Development Organizations**

Economic development organizations provide overarching support and coordination for LED. They provide institutional structure for the implementation of economic development plans and structures. There are many types of organizations, and each organization may offer a menu of functions or activities. The primary purpose of economic development organizations, however, is to ensure that government support, capital, and a legislative framework conducive to successful business activities are provided in an efficient and coordinated fashion.

The objectives of a local economic development program dictate the various functions that are appropriate. Depending on the resources available within a single community, it may be necessary or more efficient to partner with higher-level organizations to provide a larger menu of activities. First, it is important to gain an understanding of the various functions, and then explore, through examples, at what level—local, regional, national or supranational—these functions are best addressed.

### **Support Functions**

#### **Business Inventory**

Understanding the business activities of local firms, both manufacturing and service firms, forms the basis for the types of marketing, business incentives, and training programs that will strengthen the related firms. A systematic business retention inventory program can uncover this information. It should be noted, however, that the information you will be requesting is sensitive to businesses.

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<sup>6</sup> Stafford, Bill and Sam Kaplan, “Greater Seattle’s Secrets of the Trade,” Association of Metropolitan Planning Organizations, p.1.

The business owners or managers may be uncomfortable at first, and it is extremely important that they understand clearly what you intend to do with the information. They need to understand that giving you the information will not result in a penalty from the government; that, in fact, you will be able to truly assist them in securing capital, new markets, or reduced business costs.

### **Product and Resource Marketing Programs**

Based on the information derived from the business inventory survey, economic development organizations can develop a focused marketing program. Elements of such a program can include trade shows, both hosting and attending; brochures; and employment of a marketing representative. Key to this program is finding firms that are interested in investing in the types of products offered or are interested in locating in the region. Before doing mass marketing, the economic development organization should develop a marketing strategy.

### **Institutional Resource Inventory**

Economic development programs should not be expected to implement all of the community's economic development projects or provide all of the services. Rather, the program should serve as a central clearinghouse that matches private business demands with other institutions in the community. One important function of the economic development staff is to put together a community-wide institutional resource inventory, one that allows both the local government and private firms to secure services or resources. For example, educational institutions, especially technical schools, could be asked to develop a new training program to retrain laborers.

### **Financial Functions**

#### **Investment Capital**

Access to capital is key to business development and growth. Most businesses face two barriers: (1) general access to capital, and (2) accessing a sufficient amount of capital (due to their creditworthiness). A program that seeks to generate capital for business development should reduce the cost of capital resources such as land, buildings, and equipment and should lower interest rates.

#### **International Capital**

Joint ventures and foreign investments are two primary sources. A program in this area takes more than identifying companies interested in investing in the region. A two level program is necessary.

*Venture Capital:* This basically requires identifying foreign as well as local firms or investment agencies that have capital available or are interested in the acquiring access to a production line that supplements their own business development.

*Investment Development Strategies:* Local firms must be able to demonstrate that they have adopted efficient production methods so the investor can be guaranteed an acceptable, profitable rate of return. A good way to accomplish this is to work with companies that have successfully negotiated a foreign investment and learn from their successes. The best way to determine what is possible in the region is to replicate an investment success of a firm that already is part of a joint venture or has foreign investors. Identify any business that has successfully completed a joint venture, attracted foreign investment, determined a creative way to finance new production lines, etc. Their actions serve as a model for developing training programs in business investment strategies for companies willing to restructure or retool so that they can attract foreign investment.

### **Affordable Capital Resources**

The cost of both physical and human capital must be affordable. It also must allow the firm to operate efficiently and competitively. Reducing the cost of capital while at the same time ensuring that the quality of life of the citizens in the region is maintained takes careful work and investment in the very people who will be employed by the firms. Here are a few examples of programs that contribute to reducing the cost of capital.

*Capital Resource Identification:* The economic development organization should create a list of all available land and buildings for new or expanded business development. This list should include information on ownership, rent/lease requirements, space, and structure (i.e., suited for commercial or industrial development).

*Negotiated Lease Programs:* Keeping the cost of building space low or at least stable, especially for small firms is critical to success, but often the owner of the business does not have the time or knowledge to negotiate a favorable lease. By working with the owners of the property (both private and public property owners), economic development staff can provide tenants for vacant space. In addition, the staff should work on arranging pre-negotiated lease conditions that benefit both the property owner as well as a new tenant. If the government owns the building, every effort should be made to secure a lease or purchase that provides revenues to the city, but is less than a market rent.

*Human Capital:* Labor is one of the most costly inputs in the production process. It is necessary to ensure that the value of the labor matches the desired output. Cheap, poorly trained labor is not the best way to meet this goal. Based on the needs identified in the business inventory, training programs should be developed

that will allow labor to be trained so that it adds value to the product in the most efficient way. This often means more sophisticated skills based on new, technology-driven production modes. Unfortunately, increasing efficiency in production does not always lead to more employment opportunities. More employment growth comes through business production expansions and growth.

## **Intergovernmental Functions**

Governments may be members of an economic development organization. Whether they are or not, it is important to ensure that the public services required by business; the land and access to transportation, which support the competitiveness of business; and the regulatory permitting process are all available at the right time. In regards to higher levels of government, an economic development policy agenda should be developed based on input from the businesses in the area. Economic development staff should work with central government legislatures to pass favorable tax legislation, property rights, tariffs for utilities, labor laws, etc. Further, the staff should be aware of money that is available from the government for infrastructure and financial incentives.

## **Levels of Economic Development Organizations**

### **Local Organizations**

Community-based organizations most effectively deliver services to and communicate with the private sector. These organizations typically bring financial and training institutions, utility companies, landowners, and local government together. They also provide the vehicle by which to develop and implement the strategic plan that defines the LED program.

### *Sibiu County Economic Development Plan and Agency*

The Economic Development Plan of Sibiu County, Romania, provides an overview of how community alliance can be built and sustained. The main goal and strategic objectives of the plan were identified following numerous discussions and in the light of conclusions reached by analysis of the county's and area's competitive potential. Changes in its geopolitical, social, and economic situation forced Sibiu County to confront its need to develop new means of existence. The plan recognizes that in today's competitive market environment, decisions have to be made locally, not imposed by Bucharest.

The mission of the plan describes Sibiu as a multifunctional area integrated into the Romanian and world economy that provides a favorable environment for life and economic activity. The plan is a consensual public contract under which authorities, businesses, and public organizations take upon themselves certain

obligations. Sibiu has a Local Development Board that involves community representatives in implementing the plan.

The overheads describe the institution created to implement the plan, stakeholders, mission, and results. The primary functions or activities provided by the Sibiu Economic Development Agency include:

1. Identify, conceive, and promote development programs
2. Support public authorities and the private sector
3. Provide specialized consulting services
4. Administer development programs
5. Represent Sibiu's interests in relation to the Regional Development Agency

### **Subnational or Regional Organizations**

Strategic alliances seek to capitalize on the comparative advantages of sub-national units of government. Clustering occurs for a variety of reasons. For example, some regional clusters reflect a relationship based on a physical attribute such as the Rhine river basin region in Germany, or agricultural characteristics such as the Tokaj wine-producing region in Hungary. Together, such regions collectively address issues related to education, infrastructure, and civic leadership and jointly market the region's comparative advantages.

*Cities of the Arc of the Jura Mountains Network, Switzerland*<sup>7</sup>

Recognizing that long-term development requires a regional vision, the inter-regional organization, Cities of the Arc of the Jura Mountains Network, was formed. The focus of the organization was to develop a strategy for the cities within the network that targeted the industrial clustering of firms related to watch making. The Network marketed the region internationally and worked with businesses that reflected the social culture of the inhabitants.

### **National Organizations**

National organizations are often the most effective at lobbying the government for the adoption of more favorable development legislation and programs. In most post Soviet Union and Eastern Bloc countries, national economic development organizations such as the Romania National Chamber of Commerce and Industry are mandated and funded by the central government, eliminating their effectiveness as lobbyists. They can, however, be a source of information for regional and local organizations to learn about available funding sources for capital improvements and international firms interested in investing in a country.

In developed countries, national organizations such as the Council for Urban Economic Development in the United States provide support and training for

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<sup>7</sup> Marga Prohl, 1997, "Local Economic Development," Bertelsmann Foundation: Gutersloh.

economic development officers, while others such as the U.S. Chamber of Commerce lobby for favorable business legislation.

### **Supranational Organizations**

Supranational regions are being formed to allow for more freedom in trade. They reduce trade barriers in several ways: one way is to create a supranational organization; another is to execute multinational trade agreements.<sup>8</sup> In the E&E region the most influential organization is the European Union (EU).

The EU's objective is to create a collective voice for the region, forcing the restructuring of each country's industrial complex. The EU has four Structural Instruments (i.e., funds) that are designed as incentives for nations to develop programs and policies that comply with the EU's objective. The coordination of Structural Instruments seeks to concentrate resources, develop compatible programs, create partnerships, and generally add value to available resources through coordination. The Structural Instruments<sup>9</sup> are the:

European Regional Fund

European Social Fund

Agriculture Guidance and Guarantee Fund

Cohesion Fund.

This coordination is accomplished by the creation of National Development Plans (NDPs). Countries seeking accession to the EU must demonstrate actions that bring corporate governance structures into being (i.e., efficient government bureaucracies and regulatory systems),<sup>10</sup> reform financial institutions, and privatize industry. NDPs address industrial sector and subregional development issues, relying on input from regional and local economic development agencies.

National Development Plans are to be a reflection of subregional and local development plans. Ideally, the subregional and local input should define the NDP. For this to occur it is necessary that alliances be developed between communities and regions so that the national government and the EU can hear a common voice.

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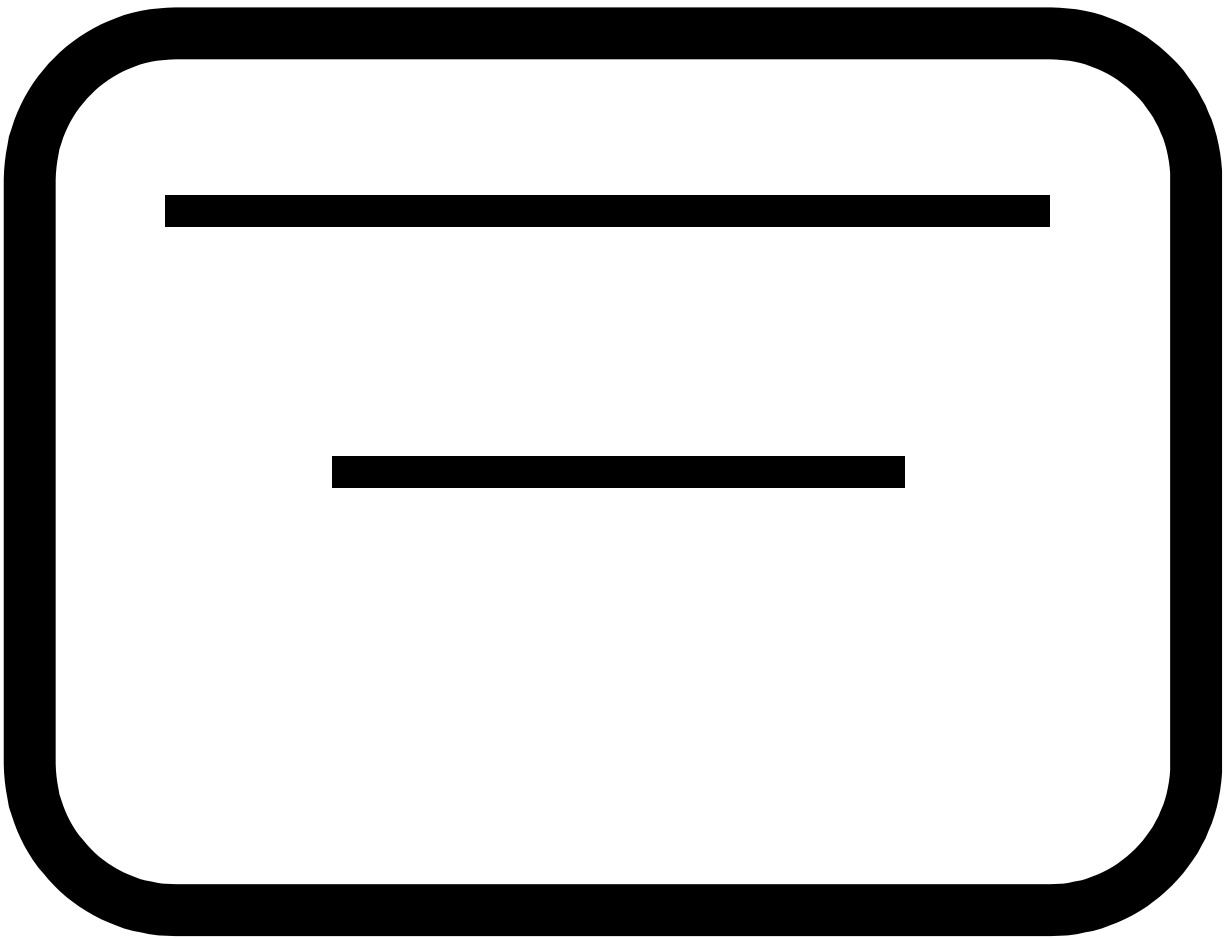
<sup>8</sup> A example of a multinational trade agreement is the North America Free Trade Agreement between Canada, the United States, and Mexico.

<sup>9</sup> For detailed information on the Structural Instruments of the EU refer to Transition Report, European Bank for Regional Development, April 1998.

<sup>10</sup> Ibid. p. 24.



# Overheads



# Local Development Board Membership Categories

## **Current:**

- < President of the County Council
  - < Chamber of Commerce
  - < Sibiu University
  - < Nongovernmental Organizations:
    - German / Romanian Foundation
    - Local Development Consortium
    - Business Incubator Center
  - < Local Government Representatives
- 

## **To be added:**

- < Business groups
- < Banking sector
- < Social Partners

# **Main Objectives of the Sibiu Development Agency**

- < Promotion of economic development strategies
- < Setup of an institutionalized system for promotion, transparent implementation, and active dialogue
- < Measures to accelerate the local development dynamic

## **Results After Six Months**

- < Sibiu Economic Development Strategy completed and waiting for adoption
- < Sibiu International Airport Development Program Pre-feasibility study completed
- < Sibiu Medieval Center (old city) rehabilitation program in progress
- < Sibiu Industrial Park in progress
- < Sibiu Tourists Information Center started
- < \$1.2 Million Sibiu Asphalt Production Facilities started

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## **Session 9 (Day 5 Afternoon)**

### **Building an Economic Development Strategy**

#### **Session Overview**

Effective local economic development programs systematically address the problems or conditions in communities that impede investment. While the course is designed to illuminate what factors must be in place to attract investment, the participants must determine which of the barriers to investment are most critical. In this session, participants are given the opportunity to apply the knowledge gained in the course to actual problems or conditions that exist in their own country or community. With the assistance of experts in local economic development, participants begin the task of designing a program to address the problems or conditions that impede investment in their own region. In the end, the participants leave the course with the start-up of a new local economic development program already in place.

#### **Session Objectives**

To identify the most critical barriers to investment.

To apply the knowledge gained in the course to real-life problems or conditions that impede investment.

To begin designing a local economic development program that will address these problems or conditions.



## Trainer's Notes

**3 hours**

### Group Assignment: Building an Economic Development Strategy

*10 min*

1. Begin the exercise with a discussion of its purpose: to give participants time to work on developing an economic development strategy for their communities. Break into groups according to community, region, or country. As the groups develop a local economic development strategy, encourage them to review their notes from this course. Distribute the handout, "Notes for Implementation." Explain that this handout is designed to encourage them to think about some of the key issues they will confront when planning and implementing economic development programs.

*10 min*

2. Next, give participants the handout, "Economic Development Strategy Worksheet" to use as a guide for the task they are to complete. Explain to participants that in this task they will develop only the beginning of the strategy; they should do more work on it once they return to their respective communities. Allow participants a few minutes to review the instructions. Ask if there are any questions before beginning. Tell groups that they will have two hours to work on their strategies.

*2 hours*

3. Allow groups two hours to complete their work. Remind them when there are five minutes left.

*40 min*

4. Reconvene the whole group and ask a spokesperson from each small group to present its preliminary strategy. The training facilitator and presenters should critique the strategies, offering suggestions on key objectives and steps or programs proposed. Some of the key points you should look for include the relationship between the objectives and the economic development problem or condition that the community wants to change, the sequence of steps proposed for each objective, and the reasonableness of the time frames and expected results.

**45 min**

### Course Evaluation

At the end of this session, give participants an evaluation form and ask them to complete the form before they leave the session.



## Handout: Notes for Implementation

As you begin planning and implementing local economic development activities, keep in mind the following concepts.

Local governments do not have mandatory tasks to perform in the business development process, but they play an important role in them. Is your organization politically, organizationally, and financially prepared to carry out your role appropriately? What can you do to better prepare?

Even in the best-case scenario, the development process requires at least six or eight years to see financial benefit. Is your organization and community committed for the long term? How can you make sure you are ready for this commitment?

Setting priorities can be difficult. Will your community focus on meeting the general development needs of the city or supporting economic development? How can you make sure you are balancing these needs appropriately?

As the economic development process extends over two or three election cycles, your local government's involvement will need to be based on strategic foundations that can provide the stability needed. Does your local government provide the needed stability to attract new business or encourage business expansion? How can you further ensure such stability?

Individual phases of the economic development process require particular tasks to be performed and strategic priorities to be re-evaluated in accordance with what occurs. Are your plans sufficiently flexible? How will you make sure that plans change when needed?

Achieving economic development goals depends only partly on what the local government does. It also relies on other key organizations within the community. Have these organizations committed to the economic development process? What can you do to strengthen these relationships?

To maintain the development process over the long term, regional cooperation is needed. Do you have links with other like-minded organizations in the region? How can you strengthen such relationships?



## Handout: Economic Development Strategy Worksheet

Identify three problems or conditions in the community that the economic development strategy will address.

Next, develop a strategy for each problem or condition using the following table.

Review each strategy to make sure that they complement each other and that they are scheduled to be addressed in a logical fashion.

Potential Institution Responsible for Developing the Program					
Expected Results of the Steps or Programs and Time Frame					
Steps or Programs Needed To Achieve Objective					
Strategic Objective To Be Achieved					





## Handout: **Course Evaluation**

### **Cities Matter: Local Economic Development**

Name: \_\_\_\_\_ (optional)

Overall, how would you rate this course on a scale of 1 to 10 (10 being the highest rating)? Briefly, why did you give this rating?

How helpful do you think the course will be to you in your work?

How has this course changed your thinking about local economic development?

What were the most useful parts of the course? Why?

Please comment briefly on the sessions:

“The Principles and Practice of Economic Development”

“The Role of Local Government in the Global Economy”

“Attracting Private Investment”

“Revenue Raising and Municipal Credit for Infrastructure Investment”

“Maximizing the Value of Local Government Assets and Incentive Programs”

“Developing the Local Labor Force”

“Field Practicum: Local Government Sector, Private Sector, NGO Sector”

“Economic Development Policy and Organizations”

“Building an Economic Development Strategy”

What suggestions do you have for USAID to improve the course?

Other comments?